HOLLY ENERGY PARTNERS LP
Form 10-Q
August 01, 2013

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 June 30, 2013

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 (State or other jurisdiction of incorporation or organization)	20-0833098 (I.R.S. Employer Identification No.)

2828 N. Harwood, Suite 1300
Dallas, Texas 75201
(Address of principal executive offices), (Zip code)
(214) 871-3555
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of the registrant’s outstanding common units at July 26, 2013 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," "would," "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 additional operations in the future successfully;
- 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 known material risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2012 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
(Unaudited)

	June 30, 2013	December 31, 2012
	(In thousands, except unit data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$8,716	$5,237
Accounts receivable:		
Trade	4,550	7,126
Affiliates	31,571	31,594
	36,121	38,720
Prepaid and other current assets	4,314	3,619
Total current assets	49,151	47,576
Properties and equipment, net	954,132	960,535
Transportation agreements, net	91,123	94,596
Goodwill	256,498	256,498
Investment in SLC Pipeline	24,882	25,041
Other assets	10,925	9,864
Total assets	$1,386,711	$1,394,110
LIABILITIES AND PARTNERS’ EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$9,358	$7,045
Affiliates	4,362	4,985
	13,720	12,030
Accrued interest	10,314	10,226
Deferred revenue	8,601	8,901
Accrued property taxes	3,649	2,688
Other current liabilities	2,042	1,905
Total current liabilities	38,326	35,750
Long-term debt	799,152	864,674
Other long-term liabilities	13,525	15,433
Deferred revenue	17,581	11,494
Class B unit	16,960	13,903
Equity:		
Partners’ equity:		
Common unitholders (58,657,048 and 56,782,048 units issued and outstanding	547,261	502,809

at June 30, 2013 and December 31, 2012, respectively)		
General partner interest (2% interest)	(145,805)	(145,877)
Accumulated other comprehensive income (loss)	545	(4,279)
Total partners' equity	402,001	352,653
Noncontrolling interest	99,166	100,203
Total equity	501,167	452,856
Total liabilities and equity	$1,386,711	$1,394,110

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012 [1]	2013	2012 [1]
	(In thousands, except per unit data)			
Revenues:				
Affiliates	$63,187	$57,774	$124,699	$114,305
Third parties	12,098	10,886	24,884	22,770
	75,285	68,660	149,583	137,075
Operating costs and expenses:				
Operations	24,538	21,907	50,403	42,382
Depreciation and amortization	15,127	14,150	29,281	28,450
General and administrative	3,100	2,487	6,332	4,526
	42,765	38,544	86,016	75,358
Operating income	32,520	30,116	63,567	61,717
Other income (expense):				
Equity in earnings of SLC Pipeline	746	794	1,403	1,625
Interest expense	(11,629)	(11,324)	(24,113)	(21,729)
Interest income	4	—	107	—
Loss on early extinguishment of debt	—	(383)	—	(2,979)
Gain on sale of assets	—	—	2,022	—
	(10,879)	(10,913)	(20,581)	(23,083)
Income before income taxes	21,641	19,203	42,986	38,634
State income tax expense	(344)	(75)	(400)	(150)
Net income	21,297	19,128	42,586	38,484
Allocation of net loss attributable to Predecessors	—	2,192	—	4,053
Allocation of net loss (income) attributable to noncontrolling interests	(1,130)	683	(4,020)	1,240
Net income attributable to Holly Energy Partners	20,167	22,003	38,566	43,777
General partner interest in net income, including incentive distributions	(6,680)	(5,894)	(12,910)	(11,398)
Limited partners' interest in net income	$13,487	$16,109	$25,656	$32,379
Limited partners' per unit interest in earnings—basic and diluted	$0.23	$0.29	$0.44	$0.59
Weighted average limited partners' units outstanding	58,657	54,722	57,828	54,722

[1] Restated as described in Note 1.

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012 [1]	2013	2012 [1]
	(In thousands)			
Net income	$21,297	$19,128	$42,586	$38,484
Allocation of net loss attributable to Predecessors	—	2,192	—	4,053
Net income before noncontrolling interests	21,297	21,320	42,586	42,537
Other comprehensive income (loss):				
Change in fair value of cash flow hedge	3,413	(1,508)	3,975	(1,862)
Amortization of unrealized loss attributable to discontinued cash flow hedge	—	1,273	849	2,547
Other comprehensive income (loss)	3,413	(235)	4,824	685
Comprehensive income before noncontrolling interest	24,710	21,085	47,410	43,222
Allocation of comprehensive (income) loss to noncontrolling interests	(1,130)	683	(4,020)	1,240
Comprehensive income attributable to Holly Energy Partners	$23,580	$21,768	$43,390	$44,462

[1] Restated as described in Note 1.

See accompanying notes.

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

	Six Months Ended June 30,	
	2013	2012 [1]
	(In thousands)	
Cash flows from operating activities		
Net income	$42,586	$38,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,281	28,450
Gain on sale of assets	(2,022)	—
Amortization of deferred charges	1,910	3,949
Equity in earnings of SLC Pipeline, net of distributions	159	(125)
Amortization of restricted and performance units	1,880	1,629
(Increase) decrease in operating assets:		
Accounts receivable—trade	2,576	(3,443)
Accounts receivable—affiliates	22	3,331
Prepaid and other current assets	(695)	(723)
Increase (decrease) in operating liabilities:		
Accounts payable—trade	(518)	(6,235)
Accounts payable—affiliates	(301)	(1,264)
Accrued interest	88	1,375
Deferred revenue	5,787	(429)
Accrued property taxes	961	(286)
Other current liabilities	153	4,711
Other, net	335	342
Net cash provided by operating activities	82,202	69,766
Cash flows from investing activities		
Additions to properties and equipment	(17,224)	(26,374)
Proceeds from sale of assets	2,481	—
Net cash used for investing activities	(14,743)	(26,374)
Cash flows from financing activities		
Borrowings under credit agreement	154,500	99,000
Repayments of credit agreement borrowings	(220,500)	(129,000)
Proceeds from issuance of senior notes	—	294,750
Proceeds from issuance of common units	73,444	—
Repayment of notes	—	(257,900)
Contribution from general partner	1,499	—
Contributions from UNEV joint venture partners	—	15,000
Distributions to HEP unitholders	(67,419)	(59,977)
Distributions to noncontrolling interest	(2,000)	—
Purchase of units for incentive grants	(3,254)	(4,533)
Deferred financing costs	—	(3,162)
Other	(250)	277
Net cash used by financing activities	(63,980)	(45,545)

Cash and cash equivalents		
Increase for the period	3,479	(2,153)
Beginning of period	5,237	6,369
End of period	$8,716	$4,216

[(1)] Restated as described in Note 1.
See accompanying notes.

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

	Common Units	General Partner Interest	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
	(In thousands)				
Balance at December 31, 2012	$502,809	$(145,877)	$(4,279)	$100,203	$452,856
Issuance of common units	73,444	—	—	—	73,444
Net income	29,753	11,870	—	963	42,586
Other comprehensive income	—	—	4,824	—	4,824
Capital contribution	—	1,499	—	—	1,499
Distributions to HEP unitholders	(54,696)	(12,723)	—	—	(67,419)
Distributions to UNEV joint venture partners	—	—	—	(2,000)	(2,000)
Purchase of units for restricted grants	(2,933)	—	—	—	(2,933)
Amortization of restricted and performance units	1,880	—	—	—	1,880
Class B unit accretion	(2,996)	(61)	—	—	(3,057)
Other	—	(513)	—	—	(513)
Balance June 30, 2013	$547,261	$(145,805)	$545	$99,166	$501,167

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. 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 400-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 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 directly exposed 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, 2012. 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, 2013.

On January 16, 2013, a two-for-one unit split was paid in the form of a common unit distribution for each issued and outstanding common unit to all unitholders of record on January 7, 2013. All references to unit and per unit amounts in this document and related disclosures have been adjusted to reflect the effect of the unit split.

In March 2013, we closed on a public offering of 1,875,000 of our common units. Additionally, an affiliate of HFC, as a selling unitholder, closed on a public sale of 1,875,000 of its HEP common units. We used our net proceeds of $73.4 million to repay indebtedness incurred under our credit facility and for general partnership purposes. Amounts repaid under our credit facility may be reborrowed from time to time, and we intend to reborrow certain amounts to fund capital expenditures.

The financial information for the three and six months ended June 30, 2012 included in the accompanying financial statements and notes thereto were revised from the amounts previously reported for those periods due to accounting rules that require retrospective restatement of previously reported results in cases of business combinations between entities under common control. We have therefore included herein the results of UNEV prior to our acquisition on July 12, 2012 referred to as results attributable to the Predecessor. See Note 2 below for additional information on the UNEV acquisition. Additional revisions were made in order to correct certain immaterial items in previously reported amounts. These revisions reduced net income attributable to Holly Energy Partners for the three and six months ended June 30, 2012 by $1.2 million and $1.4 million, respectively, and reduced the limited partners' per unit interest in net earnings - basic and diluted by $0.02 and $0.03, respectively, and were comprised principally of an adjustment of depreciation expense related to certain property and equipment. For more information about these revisions, see the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

New Accounting Pronouncements

Presentation of Comprehensive Income
Effective January 1, 2013 we adopted the accounting standard update that requires the disclosure of significant amounts reclassified out of accumulated other comprehensive income by component either on the face of the financial statements or in the notes. The adoption of this accounting standard did not have an impact on our financial condition, results of operations or cash flows.

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

Note 2. Acquisitions

UNEV Pipeline Interest Acquisition
On July 12, 2012, we acquired HFC's 75% interest in UNEV. We paid consideration consisting of $260.0 million in cash and 2,059,800 of our common units. We paid an additional $0.9 million to HFC for a post-closing working capital adjustment. Also under the terms of the transaction, we issued to HFC a Class B unit comprising a noncontrolling equity interest in a wholly-owned subsidiary subject to redemption to the extent that HFC is entitled to a 50% interest in our share of annual UNEV earnings before interest, income taxes, depreciation, and amortization above $30 million beginning July 1, 2016 and ending in June 2032, subject to certain limitations. Such contingent redemption payments are limited to a maximum payment amount calculated as described below. However, to the extent earnings thresholds are not achieved, no redemption payments are required. Contemporaneously with this transaction, HFC (our general partner) agreed to forego its right to incentive distributions of up to $1.25 million per quarter over twelve consecutive quarterly periods following the closing of the transaction and up to an additional four quarters in certain circumstances. The Class B unit increases with each foregone incentive distribution as described above and by a 7% factor compounded annually on the outstanding unredeemed balance through its expiration date. At our option, we may redeem, in whole or in part, the Class B unit at the current unredeemed value based on the calculation described. The Class B unit had a value of $13.9 million at December 31, 2012 and $17.0 million at June 30, 2013.

Noncontrolling interests reported in the consolidated statements of income include the minority partner's 25% interest in UNEV and income attributable to the Class B unit representing foregone incentive distribution rights and the 7% accretion factor, which collectively amounted to $1.1 million and $4.0 million for the three and six months ended June 30, 2013, respectively.

We are a consolidated variable interest entity of HFC. Therefore, this transaction was recorded as a transfer between entities under common control and reflects HFC's carrying basis in UNEV's assets and liabilities. We have retrospectively adjusted our financial position and operating results as if UNEV were a consolidated subsidiary for all periods while we were under common control of HFC. For the three and six months ended June 30, 2012 our consolidated statement of income includes Predecessor revenues from UNEV of $3.9 million and $7.8 million, respectively, and Predecessor net losses of $2.2 million and $4.1 million, respectively.

Note 3: 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 due to the short-term maturity of these instruments. 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.
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(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	June 30, 2013 Carrying Value	June 30, 2013 Fair Value	December 31, 2012 Carrying Value	December 31, 2012 Fair Value
		(In thousands)			
Assets:					
Interest rate swaps	Level 2	$545	$545	$—	$—
Liabilities:					
Senior notes:					
6.5% senior notes	Level 2	$295,601	$294,000	$295,275	$321,000
8.25% senior notes	Level 2	148,551	158,625	148,399	163,125
		444,152	452,625	443,674	484,125
Interest rate swaps	Level 2	—	—	3,430	3,430
		$444,152	$452,625	$447,104	$487,555

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 bank, which were derived using market quotes for similar type debt instruments. 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. This measurement is computed using the forward London Interbank Offered Rate ("LIBOR") yield curve, a market-based observable input.

See Note 7 for additional information on these instruments.

Note 4: Properties and Equipment

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Pipelines, terminals and tankage	$1,061,626	$1,049,531
Land and right of way	63,196	63,248
Construction in progress	37,032	27,150
Other	18,251	24,462
	1,180,105	1,164,391
Less accumulated depreciation	225,973	203,856
	$954,132	$960,535

We capitalized $0.2 million and $0.1 million in interest related to construction projects during the six months ended June 30, 2013 and 2012, respectively.

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

Note 5: 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:

	June 30, 2013	December 31, 2012
	(In thousands)	
Alon transportation agreement	$59,933	$59,933
HFC transportation agreement	74,231	74,231
	134,164	134,164
Less accumulated amortization	43,041	39,568
	$91,123	$94,596

We have additional transportation agreements with HFC that relate to assets contributed to us or acquired from HFC consisting of pipeline, terminal and tankage assets. 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 6: Employees, Retirement and Incentive Plans

Employees who provide direct services to us are employed by Holly Logistic Services, L.L.C., an HFC subsidiary. 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 and $1.7 million for the three months ended June 30, 2013 and 2012, respectively, and $3.8 million and $3.1 million for the six months ended June 30, 2013 and 2012, 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 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 June 30, 2013, we have two 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 June 30, 2013 and 2012, respectively, and $1.9 million and $1.6 million for the six months ended June 30, 2013 and 2012, 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 June 30, 2013, 2,500,000 units were authorized to be granted under our Long-Term Incentive Plan, of which 1,732,433 have not yet been granted, assuming no forfeitures of the unvested units and full achievement of goals for the performance units already granted.

Restricted Units

Under our Long-Term Incentive Plan, we grant restricted units to selected employees and non-employee directors 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. The fair value of each restricted unit award is measured at the market price as of the date of grant and is amortized over the vesting period.

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

A summary of restricted unit activity and changes during the six months ended June 30, 2013 is presented below:

Restricted Units	Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2013 (nonvested)	58,472	$31.21
Granted	37,815	41.18
Vesting and transfer of full ownership to recipients	—	—
Outstanding at June 30, 2013 (nonvested)	96,287	$35.08

As of June 30, 2013, there was $1.6 million of total unrecognized compensation expense related to nonvested restricted unit grants which is expected to be recognized over a weighted-average period of 1.1 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 June 30, 2013, estimated unit payouts for outstanding nonvested performance unit awards were at 100% to 125%.

We granted 32,888 target performance units to certain officers in March 2013. These units will vest over a three-year performance period ending December 31, 2015 and 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 Chief Executive Officer) 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. The fair value of these performance units is based on the grant date closing unit price of $40.86 and will apply to the number of units ultimately awarded.

A summary of performance unit activity and changes during the six months ended June 30, 2013 is presented below:

Performance Units	Units
Outstanding at January 1, 2013 (nonvested)	54,498
Granted	32,888
Vesting and transfer of common units to recipients	(25,124)
Outstanding at June 30, 2013 (nonvested)	62,262

The grant-date fair value of performance units vested and transferred to recipients during the six months ended June 30, 2013 was $0.5 million. As of June 30, 2013, there was $1.4 million of total unrecognized compensation expense related to nonvested performance units, which is expected to be recognized over a weighted-average period of 1.7 years.

Note 7: Debt

Credit Agreement

We have a $550 million senior secured revolving credit facility expiring in June 2017 (the “Credit Agreement”) that is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is available also to fund letters of credit up to a $50 million sub-limit and to fund distributions to unitholders up to a $60 million sub-limit.

Our obligations under the Credit Agreement are collateralized by substantially all of our assets. Indebtedness under the Credit Agreement is recourse to HEP Logistics Holdings, L.P. (“HEP Logistics”), our general partner, and 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

HOLLY ENERGY PARTNERS, L.P.
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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 which we are currently in compliance with, 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 2012, we issued $300 million in aggregate principal amount outstanding of 6.5% senior notes maturing March 1, 2020 (the “6.5% Senior Notes”). Net proceeds of $294.8 million were used in March and April 2012 to redeem $185.0 million aggregate principal amount of our 6.25% senior notes maturing March 1, 2015 (the “6.25% Senior Notes”) tendered pursuant to a cash tender offer and consent solicitation, to repay HFC $72.9 million in promissory notes related to our November 2011 acquisition of assets located at HFC's El Dorado and Cheyenne refineries, to pay related fees, expenses and accrued interest in connection with these transactions and to repay borrowings under the Credit Agreement.

Also, we have $150 million in aggregate principal amount outstanding of 8.25% senior notes maturing March 15, 2018 (the “8.25% Senior Notes”).

The 6.5% Senior Notes and 8.25% Senior Notes (collectively, the “Senior Notes”) are unsecured and impose certain restrictive covenants, which we are currently in compliance with, 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 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 under the Senior Notes.

Indebtedness under the Senior Notes is recourse to HEP Logistics, our general partner, and 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:

	June 30, 2013	December 31, 2012
	(In thousands)	
Credit Agreement	$355,000	$421,000
6.5% Senior Notes		
Principal	300,000	300,000
Unamortized discount	(4,399)	(4,725)
	295,601	295,275
8.25% Senior Notes		

Principal	150,000	150,000
Unamortized discount	(1,449)	(1,601)
	148,551	148,399
Total long-term debt	$799,152	$864,674

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

As of June 30, 2013, we have three interest rate swaps that hedge our exposure to the cash flow risk caused by the effects of LIBOR changes on $305.0 million of Credit Agreement advances. Our first interest rate swap entered into in December 2011, effectively converts $155.0 million of our LIBOR-based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin of 2.50% as of June 30, 2013, which equaled an effective interest rate of 3.49%. This swap contract matures in February 2016. In August 2012, we entered into two similar interest rate swaps with identical terms which effectively convert $150.0 million of our LIBOR-based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.50% as of June 30, 2013, which equaled an effective interest rate of 3.24%. 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 $305.0 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 $305.0 million of our variable rate debt. Any ineffectiveness is recorded directly to interest expense. As of June 30, 2013, we had no ineffectiveness on our cash flow hedges.

At June 30, 2013, we have accumulated other comprehensive income of $0.5 million that relates to our current cash flow hedging instruments. For the three and six months ended June 30, 2013, $0.5 million and $1.9 million, respectively, of other comprehensive loss was reclassified to interest expense due to cash flow hedge settlements. Approximately $0.1 million will be transferred from accumulated other comprehensive loss 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)			
June 30, 2013				
Interest rate swaps designated as cash flow hedging instrument:				
Variable-to-fixed interest rate swap contracts ($305.0 million of LIBOR-based debt interest)	Other long-term assets	$545	Accumulated other comprehensive income	$545
December 31, 2012				
Interest rate swaps designated as cash flow hedging instrument:				
Variable-to-fixed interest rate swap contracts ($305.0 million of LIBOR-based debt interest)	Other long-term liabilities	$3,430	Accumulated other comprehensive (loss)	$(3,430)

HOLLY ENERGY PARTNERS, L.P.
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Interest Expense and Other Debt Information
Interest expense consists of the following components:

	Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Interest on outstanding debt:		
Credit Agreement, net of interest on interest rate swaps	$6,043	$2,953
6.5% Senior Notes	9,755	5,966
6.25% Senior Notes	—	2,422
8.25% Senior Notes	6,193	6,193
Promissory Notes	—	543
Amortization of discount and deferred debt issuance costs	849	2,547
Increase in interest expense - non-cash charges attributable to interest rate swaps	1,063	875
Commitment fees	365	362
Total interest incurred	24,268	21,861
Less capitalized interest	155	132
Net interest expense	$24,113	$21,729
Cash paid for interest	$22,258	$17,039

We recognized a charge of $3.0 million upon the early extinguishment of debt for the six months ended June 30, 2012. This charge represents the premium paid to our 6.25% Senior Note holders upon their tender of an aggregate principal amount of $185.0 million and related net discount.

Note 8: Significant Customers

All revenues are domestic revenues, of which 95% 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 June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
HFC	84	%	84	%	83	%	83	%
Alon	11	%	11	%	10	%	11	%

Note 9: 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 agreed 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 1, based on the Producer Price Index (“PPI”) or Federal Energy Regulatory Commission (“FERC”) index. Additionally such agreements require HFC to reimburse us for certain costs. Following the July 1, 2013 PPI adjustment HFC's minimum annualized payments to us under these agreements increased by $4.7 million to$225.5 million.

If HFC fails to meet its minimum volume commitments under the agreements in any quarter, it will be required to pay us in cash the amount of any shortfall 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.

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Under certain provisions of an omnibus agreement we have with HFC (the "Omnibus Agreement") we pay HFC an annual administrative fee for the provision by HFC or its affiliates of various general and administrative services to us, currently $2.3 million. This fee does not include the salaries of personnel employed by HLS who perform services for us 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.

Related party transactions with HFC are as follows:

- Revenues received from HFC were $63.2 million and $57.8 million for the three months ended June 30, 2013 and 2012, respectively, and $124.7 million and $114.3 million for the six months ended June 30, 2013 and 2012, respectively.
- HFC charged us general and administrative services under the Omnibus Agreement of $0.6 million for the three months ended June 30, 2013 and 2012, respectively, and $1.2 million for the six months ended June 30, 2013 and 2012, respectively.
- We reimbursed HFC for costs of employees supporting our operations of $9.4 million and $7.1 million for the three months ended June 30, 2013 and 2012, respectively, and $19.2 million and $14.8 million for the six months ended June 30, 2013 and 2012, respectively.
- HFC reimbursed us $4.3 million and $2.2 million for the three months ended June 30, 2013 and 2012, respectively, and $9.2 million and $4.7 million for the six months ended June 30, 2013 and 2012, respectively, for certain reimbursable costs and capital projects.
- We distributed $17.4 million and $15.7 million for the three months ended June 30, 2013 and 2012, respectively, to HFC as regular distributions on its common units and general partner interest, including general partner incentive distributions. For the six months ended June 30, 2013 and 2012 we distributed $34.8 million and $31.0 million, respectively.
- Accounts receivable from HFC were $31.6 million and $31.6 million at June 30, 2013 and December 31, 2012, respectively.
- Accounts payable to HFC were $4.4 million and $5.0 million at June 30, 2013 and December 31, 2012, respectively.
- Revenues for the three and the six months ended June 30, 2013 include $0.7 million and $4.7 million, respectively, of shortfall payments billed in 2012, as HFC did not exceed its minimum volume commitment in any of the subsequent four quarters. Deferred revenue in the consolidated balance sheets at June 30, 2013 and December 31, 2012, includes $5.0 million and $5.1 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 $5.0 million deferred at June 30, 2013.
- We acquired from HFC 75% interest in the UNEV Pipeline in July 2012. See Note 2 for a description of this transaction.

Note 10: Partners' Equity

As of June 30, 2013, HFC held 22,380,030 of our common units and the 2% general partner interest, which together constituted a 39% ownership interest in us.

On January 16, 2013, a two-for-one unit split was paid in the form of a common unit distribution for each issued and outstanding common unit to all unitholders of record on January 7, 2013. All references to unit and per unit amounts in this document and related disclosures have been adjusted to reflect the effect of the unit split.

In March 2013, we closed on a public offering of 1,875,000 of our common units. Additionally, an affiliate of HFC, as a selling unitholder, closed on a public sale of 1,875,000 of its HEP common units. We used our net proceeds of $73.4 million to repay indebtedness incurred under our credit facility and for general partnership purposes. Amounts repaid under our credit facility may be reborrowed from time to time, and we intend to reborrow certain amounts to fund capital expenditures.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table presents the allocation of the general partner interest in net income for the periods presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
General partner interest in net income	$275	$329	$522	$661
General partner incentive distribution	6,405	5,565	12,388	10,737
Total general partner interest in net income	$6,680	$5,894	$12,910	$11,398

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 July 26, 2013 we announced our cash distribution for the second quarter of 2013 of $0.4850 per unit. The distribution is payable on all common and general partner units and will be paid August 14, 2013 to all unitholders of record on August 5, 2013.

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per unit data)			
General partner interest in net income	$737	$622	$1,456	$1,227
General partner incentive distribution	6,405	5,565	12,388	10,737
Total general partner distribution	7,142	6,187	13,844	11,964
Limited partner distribution	28,448	24,899	56,457	49,387
Total regular quarterly cash distribution	$35,590	$31,086	$70,301	$61,351
Cash distribution per unit applicable to limited partners	$0.485	$0.455	$0.963	$0.903

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, as increases to our properties and equipment and intangible assets instead of decreases to our partners’ equity.

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 wholly-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 using the equity method of accounting.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Prior period amounts have been recast to include UNEV operations acquired July 12, 2012, as if it had been acquired January 1, 2012. This treatment is required as the transactions were between entities under common control. Additionally, certain reclassifications for prior periods have been made to conform to the current year presentation.

Condensed Consolidating Balance Sheet

June 30, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$2	$—	$8,714	$—	$8,716
Accounts receivable	—	32,791	3,604	(274)	36,121
Intercompany accounts receivable (payable)	27,621	(27,621)	—	—	—
Prepaid and other current assets	81	2,837	1,396	—	4,314
Total current assets	27,704	8,007	13,714	(274)	49,151
Properties and equipment, net	—	562,282	391,850	—	954,132
Investment in subsidiaries	827,307	297,498	—	(1,124,805)	—
Transportation agreements, net	—	91,123	—	—	91,123
Goodwill	—	256,498	—	—	256,498
Investment in SLC Pipeline	—	24,882	—	—	24,882
Other assets	1,752	9,173	—	—	10,925
Total assets	$856,763	$1,249,463	$405,564	$(1,125,079)	$1,386,711
LIABILITIES AND PARTNERS' EQUITY					
Current liabilities:					
Accounts payable	$—	$11,094	$2,900	$(274)	$13,720
Accrued interest	10,198	116	—	—	10,314
Deferred revenue	—	5,094	3,507	—	8,601
Accrued property taxes	—	1,349	2,300	—	3,649
Other current liabilities	334	1,657	51	—	2,042
Total current liabilities	10,532	19,310	8,758	(274)	38,326
Long-term debt	444,152	355,000	—	—	799,152
Other long-term liabilities	78	13,305	142	—	13,525
Deferred revenue	—	17,581	—	—	17,581
Class B unit	—	16,960	—	—	16,960
Equity - partners	402,001	827,307	396,664	(1,223,971)	402,001
Equity - noncontrolling interest	—	—	—	99,166	99,166
Total liabilities and partners' equity	$856,763	$1,249,463	$405,564	$(1,125,079)	$1,386,711

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(Unaudited) Continued

Condensed Consolidating Balance Sheet

December 31, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$2	$823	$4,412	$—	$5,237
Accounts receivable	—	32,319	6,401	—	38,720
Intercompany accounts receivable (payable)	42,194	(42,194)	—	—	—
Prepaid and other current assets	224	2,395	1,000	—	3,619
Total current assets	42,420	(6,657)	11,813	—	47,576
Properties and equipment, net	—	563,701	396,834	—	960,535
Investment in subsidiaries	763,569	300,607	—	(1,064,176)	—
Transportation agreements, net	—	94,596	—	—	94,596
Goodwill	—	256,498	—	—	256,498
Investment in SLC Pipeline	—	25,041	—	—	25,041
Other assets	1,154	8,710	—	—	9,864
Total assets	$807,143	$1,242,496	$408,647	$(1,064,176)	$1,394,110
LIABILITIES AND PARTNERS' EQUITY					
Current liabilities:					
Accounts payable	$—	$10,745	$1,285	$—	$12,030
Accrued interest	10,198	28	—	—	10,226
Deferred revenue	—	3,319	5,582	—	8,901
Accrued property taxes	—	1,923	765	—	2,688
Other current liabilities	563	1,274	68	—	1,905
Total current liabilities	10,761	17,289	7,700	—	35,750
Long-term debt	443,674	421,000	—	—	864,674
Other long-term liabilities	55	15,241	137	—	15,433
Deferred revenue	—	11,494	—	—	11,494
Class B unit	—	13,903	—	—	13,903
Equity - partners	352,653	763,569	400,810	(1,164,379)	352,653
Equity - noncontrolling interest	—	—	—	100,203	100,203
Total liabilities and partners' equity	$807,143	$1,242,496	$408,647	$(1,064,176)	$1,394,110

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Condensed Consolidating Statement of Comprehensive Income

Three Months Ended June 30, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$60,797	$2,698	$(308)	$63,187
Third parties	—	10,116	1,982	—	12,098
	—	70,913	4,680	(308)	75,285
Operating costs and expenses:					
Operations	—	22,104	2,742	(308)	24,538
Depreciation and amortization	—	11,543	3,584	—	15,127
General and administrative	983	2,117	—	—	3,100
	983	35,764	6,326	(308)	42,765
Operating income (loss)	(983)	35,149	(1,646)	—	32,520
Equity in earnings (loss) of subsidiaries	29,413	(1,234)	—	(28,179)	—
Equity in earnings of SLC Pipeline	—	746	—	—	746
Interest expense	(8,263)	(3,366)	—	—	(11,629)
Interest income	—	3	1	—	4
	21,150	(3,851)	1	(28,179)	(10,879)
Income (loss) before income taxes	20,167	31,298	(1,645)	(28,179)	21,641
State income tax expense	—	(344)	—	—	(344)
Net income (loss)	20,167	30,954	(1,645)	(28,179)	21,297
Allocation of net (income) attributable to noncontrolling interests	—	—	—	(1,130)	(1,130)
Net income (loss) attributable to Holly Energy Partners	20,167	30,954	(1,645)	(29,309)	20,167
Other comprehensive income	3,413	3,413	—	(3,413)	3,413
Comprehensive income (loss)	$23,580	$34,367	$(1,645)	$(32,722)	$23,580

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Condensed Consolidating Statement of Comprehensive Income

Three Months Ended June 30, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$55,263	$2,776	$(265)	$57,774
Third parties	—	9,752	1,134	—	10,886
	—	65,015	3,910	(265)	68,660
Operating costs and expenses:					
Operations	—	19,121	3,051	(265)	21,907
Depreciation and amortization	—	10,562	3,588	—	14,150
General and administrative	484	2,003	—	—	2,487
	484	31,686	6,639	(265)	38,544
Operating income (loss)	(484)	33,329	(2,729)	—	30,116
Equity in earnings (loss) of subsidiaries	28,987	(2,046)	—	(26,941)	—
Equity in earnings of SLC Pipeline	—	794	—	—	794
Interest expense	(8,309)	(3,015)	—	—	(11,324)
Loss on early extinguishment of debt	(383)	—	—	—	(383)
	20,295	(4,267)	—	(26,941)	(10,913)
Income (loss) before income taxes	19,811	29,062	(2,729)	(26,941)	19,203
State income tax expense	—	(75)	—	—	(75)
Net income (loss)	19,811	28,987	(2,729)	(26,941)	19,128
Allocation of net loss attributable to Predecessors	2,192	—	—	—	2,192
Allocation of net loss attributable to noncontrolling interests	—	—	—	683	683
Net income (loss) attributable to Holly Energy Partners	22,003	28,987	(2,729)	(26,258)	22,003
Other comprehensive income (loss)	(235)	(235)	—	235	(235)
Comprehensive income (loss)	$21,768	$28,752	$(2,729)	$(26,023)	$21,768

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Condensed Consolidating Statement of Comprehensive Income

Six Months Ended June 30, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$115,210	$10,100	$(611)	$124,699
Third parties	—	18,523	6,361	—	24,884
	—	133,733	16,461	(611)	149,583
Operating costs and expenses:					
Operations	—	45,471	5,543	(611)	50,403
Depreciation and amortization	—	22,113	7,168	—	29,281
General and administrative	1,791	4,541	—	—	6,332
	1,791	72,125	12,711	(611)	86,016
Operating income (loss)	(1,791)	61,608	3,750	—	63,567
Equity in earnings (loss) of subsidiaries	56,872	2,890	—	(59,762)	—
Equity in earnings of SLC Pipeline	—	1,403	—	—	1,403
Interest expense	(16,515)	(7,598)	—	—	(24,113)
Interest income	—	3	104	—	107
Other	—	2,022	—	—	2,022
	40,357	(1,280)			