ARRAY BIOPHARMA INC
Form 10-Q
February 06, 2013

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2012

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-16633

Array BioPharma Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	84-1460811
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3200 Walnut Street, Boulder, CO	80301
(Address of Principal Executive Offices)	(Zip Code)

(303) 381-6600
(Registrant's Telephone Number, Including Area Code)

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x 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 ¨	Accelerated Filer x
Non-Accelerated Filer ¨ (do not check if smaller reporting company)	Smaller Reporting Company ¨

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

As of January 31, 2013, the registrant had 116,661,219 shares of common stock outstanding.

ARRAY BIOPHARMA INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED December 31, 2012
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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED FINANCIAL STATEMENTS
ARRAY BIOPHARMA INC.
Condensed Balance Sheets
(Amounts in Thousands, Except Share and Per Share Amounts)
(Unaudited)

	December 31, 2012	June 30, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$59,565	$55,799
Marketable securities	49,616	33,378
Prepaid expenses and other current assets	5,098	3,930
Total current assets	114,279	93,107
Long-term assets		
Marketable securities	664	473
Property and equipment, net	11,245	12,059
Other long-term assets	2,185	2,434
Total long-term assets	14,094	14,966
Total assets	$128,373	$108,073
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$4,726	$6,466
Accrued outsourcing costs	4,509	5,394
Accrued compensation and benefits	5,098	7,530
Other accrued expenses	1,896	1,390
Co-development liability	3,970	9,178
Deferred rent	3,567	3,489
Deferred revenue	26,534	42,339
Current portion of long-term debt	—	150
Total current liabilities	50,300	75,936
Long-term liabilities		
Deferred rent	9,661	11,480
Deferred revenue	4,569	13,228
Long-term debt, net	94,417	92,106
Derivative liabilities	479	656
Other long-term liabilities	664	473
Total long-term liabilities	109,790	117,943
Total liabilities	160,090	193,879
Commitments and contingencies		
Stockholders' deficit		
Preferred stock, $0.001 par value; 10,000,000 shares authorized, 10,135 shares designated as Series B convertible preferred stock; 0 and 2,721 shares issued and outstanding as of December 31, 2012 and June 30, 2012, respectively	—	8,054

Common stock, $0.001 par value; 220,000,000 and 120,000,000 shares authorized; 116,660,469 and 92,063,645 shares issued and outstanding, as of December 31, 2012 and June 30, 2012, respectively	117	92
Additional paid-in capital	522,214	437,401
Warrants	39,385	39,385
Accumulated other comprehensive income (loss)	2	(1)
Accumulated deficit	(593,435)	(570,737)
Total stockholders' deficit	(31,717)	(85,806)
Total liabilities and stockholders' deficit	$128,373	$108,073

The accompanying notes are an integral part of these condensed financial statements.

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ARRAY BIOPHARMA INC.
Condensed Statements of Operations and Comprehensive Loss
(Amounts in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Revenue				
License and milestone revenue	$14,016	$19,195	$26,492	$37,657
Collaboration revenue	4,361	4,033	7,718	7,701
Total revenue	18,377	23,228	34,210	45,358
Operating expenses				
Cost of revenue	7,909	6,266	14,448	12,711
Research and development for proprietary programs	13,941	13,150	27,475	25,748
General and administrative	4,610	3,782	9,390	7,502
Total operating expenses	26,460	23,198	51,313	45,961
Income (loss) from operations	(8,083)	30	(17,103)	(603)
Other income (expense)				
Interest income	12	3	24	9
Interest expense	(2,860)	(3,836)	(5,619)	(6,792)
Total other expenses, net	(2,848)	(3,833)	(5,595)	(6,783)
Net loss	$(10,931)	$(3,803)	$(22,698)	$(7,386)
Change in unrealized gains and losses on marketable securities	—	1	3	(3)
Comprehensive loss	$(10,931)	$(3,802)	$(22,695)	$(7,389)
Weighted average shares outstanding - basic and diluted	105,403	60,004	99,005	58,515
Net loss per share - basic and diluted	$(0.10)	$(0.06)	$(0.23)	$(0.13)

The accompanying notes are an integral part of these condensed financial statements.

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ARRAY BIOPHARMA INC.
Condensed Statement of Stockholders' Deficit
(Amounts in Thousands)
(Unaudited)

	Preferred stock		Common stock		Additional paid-in capital	Warrants	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
	Shares	Amounts	Shares	Amounts					
Balance as of July 1, 2012	3	$ 8,054	92,064	$ 92	$ 437,401	$ 39,385	$ (1)	$ (570,737)	$ (85,806)
Issuance of common stock under stock option and employee stock purchase plans	—	—	682	1	1,453	—	—	—	1,454
Share-based compensation expense	—	—	—	—	1,562	—	—	—	1,562
Issuance of common stock for cash, net of offering costs	—	—	20,700	21	70,890	—	—	—	70,911
Conversion of preferred stock to common	(3)	(8,054)	2,721	3	8,051	—	—	—	—
Payment of employee bonus with stock	—	—	493		2,857	—	—	—	2,857
Change in unrealized gain on marketable securities	—	—	—	—	—	—	3	—	3
Net loss	—	—	—	—	—	—	—	(22,698)	(22,698)
Balance as of December 31, 2012	—	$ —	116,660	$ 117	$ 522,214	$ 39,385	$ 2	$ (593,435)	$ (31,717)

The accompanying notes are an integral part of these condensed financial statements.

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ARRAY BIOPHARMA INC.
Condensed Statements of Cash Flows
(Amounts in Thousands)
(Unaudited)

	Six Months Ended December 31,	
	2012	2011
Cash flows from operating activities		
Net loss	$(22,698)	$(7,386)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	2,278	2,630
Non-cash interest expense	2,158	2,329
Loss on prepayment of long-term debt	—	942
Share-based compensation expense	1,562	1,156
Payment of employee bonus with stock	2,857	1,969
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(1,092)	1,856
Accounts payable	(1,235)	488
Accrued outsourcing costs	(885)	(877)
Accrued compensation and benefits	(2,432)	(1,672)
Co-development liability	(5,208)	2,146
Deferred rent	(1,741)	(1,663)
Deferred revenue	(24,464)	(7,946)
Other liabilities and accrued expenses	137	(123)
Net cash used in operating activities	(50,763)	(6,151)
Cash flows from investing activities		
Purchases of property and equipment	(1,464)	(926)
Purchases of marketable securities	(62,022)	(4,940)
Proceeds from sales and maturities of marketable securities	45,650	20,552
Net cash provided by (used in) investing activities	(17,836)	14,686
Cash flows from financing activities		
Proceeds from exercise of stock options and shares issued under stock option and employee stock purchase plans	1,454	879
Proceeds from the issuance of common stock for cash	75,555	7,345
Payment of offering costs	(4,644)	(295)
Payment of principal of long-term debt	—	(4,200)
Net cash provided by financing activities	72,365	3,729
Net increase in cash and cash equivalents	3,766	12,264
Cash and cash equivalents as of beginning of period	55,799	48,099
Cash and cash equivalents as of end of period	$59,565	$60,363
Supplemental disclosure of cash flow information		
Cash paid for interest	$3,463	$3,546

The accompanying notes are an integral part of these condensed financial statements.

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ARRAY BIOPHARMA INC.
Notes to the unaudited condensed financial statements

NOTE 1 – OVERVIEW AND BASIS OF PRESENTATION

Organization

Array BioPharma Inc. is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small molecule drugs to treat patients afflicted with cancer. During 2013, Array expects to make substantial progress in generating data to inform registration study decisions for our wholly-owned hematology programs, ARRY-520 and ARRY-614. Array-invented MEK162 will be tested in a Phase 3 trial in NRAS melanoma which is scheduled to start in April 2013, as well as BRAF mutant melanoma later in 2013 (with Novartis). Also, AstraZeneca recently announced a potential start of a Phase 3 trial with Array-invented selumetinib in non-small cell lung cancer during the second half of 2013.

Basis of Presentation

We follow the accounting guidance outlined in the Financial Accounting Standards Board Codification. The accompanying unaudited Condensed Financial Statements have been prepared without audit and do not include all of the disclosures required by the Financial Accounting Standards Board Codification, which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission, whom we refer to as the SEC, relating to requirements for interim reporting. The June 30, 2012 Condensed Balance Sheet data were derived from audited financial statements but do not include all disclosures required by generally accepted accounting principles in the United States, commonly referred to as GAAP. The unaudited Condensed Financial Statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly our financial position as of December 31, 2012 and June 30, 2012, and our results of operations for the three and six months ended December 31, 2012 and 2011, and our cash flows for the six months ended December 31, 2012 and 2011. Operating results for the three and six months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013.

These unaudited Condensed Financial Statements should be read in conjunction with our audited Financial Statements and the notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2012 filed with the SEC on August 16, 2012.

For the six months ended December 31, 2011, we reclassified the activity in our co-development liability under the Novartis agreement, as further described under Note 4 - Deferred Revenue - Novartis, from other liabilities and accrued expenses to co-development liability in our Condensed Statements of Cash Flows to conform to the current period presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although management bases these estimates on historical data and other assumptions believed to be reasonable under the circumstances, actual results could differ significantly from these estimates under different assumptions or conditions.

We believe the accounting estimates having the most significant impact on the financial statements relate to: (i) estimating the stand-alone value of deliverables for purposes of determining revenue recognized under partnerships and collaborations involving multiple elements; (ii) estimating the periods over which up-front and milestone payments from partnership and collaboration agreements are recognized; (iii) estimating accrued outsourcing costs for clinical trials and preclinical testing; and (iv) estimating the fair value of our long-term debt and the associated embedded derivatives.

Liquidity

We have incurred operating losses and an accumulated deficit as a result of ongoing research and development spending since inception. As of December 31, 2012, we had an accumulated deficit of $593.4 million. We had net losses of $10.9 million and $22.7 million for the three and six months ended December 31, 2012, respectively, and $23.6 million, $56.3 million and $77.6 million for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

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During the first six months of fiscal 2013, our net cash used in operations was $50.8 million. We have historically funded our operations from up-front fees and license and milestone payments received under our partnerships, from the issuance and sale of equity securities and through debt provided by our credit facilities. For example, we received net proceeds of approximately $127.0 million during calendar year 2012 from underwritten public offerings of our common stock, after underwriting discounts, commissions and related offering expenses, and have received $175.8 million from up-front, license and milestone payments under our partnerships since December 2009, including the following payments:

- In December 2009, we received a $60 million up-front payment from Amgen Inc. under a Collaboration and License Agreement.

- In May and June 2010, we received a total of $45 million in up-front and milestone payments under a License Agreement with Novartis Pharmaceutical International Ltd.

- In December 2010, we received a $10 million milestone payment under a License Agreement with Celgene Corporation.

- In May 2011, we received a $10 million milestone payment under a License Agreement with Novartis Pharmaceutical International Ltd.

- In September 2011, we received a $28 million up-front payment under a License Agreement with Genentech, Inc.

- In June 2012, we received an $8.5 million milestone payment from Amgen following achievement of a pre-defined patient enrollment milestone in a Phase 2 trial.

Until we can generate sufficient levels of cash from operations, which we do not expect to achieve in the foreseeable future, we will continue to utilize existing cash, cash equivalents and marketable securities, and will continue to depend on funds provided from the sources mentioned above, which may not be available or forthcoming.

During the second quarter of fiscal 2013, we began paying our percentage share of the combined development costs incurred since inception under the MEK162 program licensed to Novartis, as discussed in Note 4 – Deferred Revenue – Novartis International Pharmaceutical Ltd., resulting in a $9.2 million payment to Novartis during the quarter. We have reported a $4.0 million payable in the accompanying Condensed Balance Sheets as co-development liability for this obligation as of December 31, 2012. We anticipate paying Novartis a comparable payment during the first half of fiscal 2014.

Management believes that the cash, cash equivalents and marketable securities as of December 31, 2012, will enable us to continue to fund operations in the normal course of business, including receipt of potential up-front and milestone payments, for at least the next 12 months. Because sufficient funds may not be available to us when needed from existing partnerships, we expect that we will be required to continue to fund our operations in part through the sale of debt or equity securities and through licensing select programs that include up-front and/or milestone payments.

Our ability to successfully raise sufficient funds through the sale of debt or equity securities when needed is subject to many risks and uncertainties and, even if we are successful, future equity issuances would result in dilution to our existing stockholders. We also may not successfully consummate new partnerships that provide for additional up-front fees or milestone payments, or we may not earn milestone payments under such partnerships when anticipated or at all. Our ability to realize milestone or royalty payments under existing partnership agreements and to enter into new partnering arrangements that generate additional revenue through up-front fees and milestone or royalty payments is

subject to a number of risks, many of which are beyond our control and include the following:

- The drug development process is risky and highly uncertain and we may not be successful in generating proof-of-concept data to create partnering opportunities and, even if we are successful, we or our partners may not be successful in commercializing drug candidates we create;

- We may fail to select the best drug from our wholly-owned pipeline to advance and invest in registration, or Phase 3 studies;

- Our partners have substantial control and discretion over the timing and continued development and marketing of drug candidates we create and, therefore, we may not receive milestone, royalty or other payments when anticipated or at all;

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- The drug candidates we or our partners develop may not obtain regulatory approval;
- If regulatory approval is received, drugs we develop will remain subject to regulation or may not gain market acceptance, which could delay or prevent us from generating milestone, royalty revenue or product revenue from the commercialization of these drugs; and
- We cannot control or predict the spending priorities and willingness of pharmaceutical companies to in-license drugs for further development and commercialization.

Our assessment of our future need for funding and our ability to continue to fund our operations is a forward-looking statement that is based on assumptions that may prove to be wrong and that involve substantial risks and uncertainties. Our actual future capital requirements could vary as a result of a number of factors, including:

- Our ability to enter into agreements to out-license, co-develop or commercialize our proprietary drug candidates and the timing of payments under those agreements throughout each candidate's development stage;
- The number and scope of our research and development programs;
- The progress and success of our preclinical and clinical development activities;
- The progress and success of the development efforts of our partners;
- Our ability to maintain current collaboration and partnership agreements;
- The costs involved in enforcing patent claims and other intellectual property rights;
- The costs and timing of regulatory approvals; and/or
- The expenses associated with unforeseen litigation, regulatory changes, competition and technological developments, general economic and market conditions and the extent to which we acquire or invest in other businesses, products and technologies.

If we are unable to obtain additional funding from these or other sources when needed, or to the extent needed, it may be necessary to significantly reduce the current rate of spending through reductions in staff and delaying, scaling back, or stopping certain research and development programs, including more costly Phase 2 and Phase 3 clinical trials on our wholly-owned or co-development programs as these programs progress into later stage development. Insufficient liquidity may also require us to relinquish greater rights to product candidates at an earlier stage of development or on less favorable terms to us and our stockholders than we would otherwise choose in order to obtain up-front license fees needed to fund operations. These events could prevent us from successfully executing our operating plan and in the future could raise substantial doubt about our ability to continue as a going concern. Further, as discussed in Note 5 – Long-term Debt, the entire outstanding debt balance of $14.7 million with Comerica Bank (Comerica) and $92.6 million with Deerfield Private Design Fund, L.P. and certain of its affiliates (collectively referred to as Deerfield) becomes due and payable if our total cash, cash equivalents and marketable securities falls below $22 million and $20 million, respectively, at the end of a fiscal quarter. Based on our current forecasts and expectations, which are subject to many factors outside of our control, we do not anticipate that our cash and cash equivalents and marketable securities will fall below this level prior to maturity of such debt.

Revenue Recognition

We recognize revenue based on four criteria, each of which must be met in order to recognize revenue for the performance of services or the shipment of products. Revenue is recognized when (a) persuasive evidence of an arrangement exists, (b) products are delivered or as services are rendered, (c) the sales price is fixed or determinable and (d) collectability is reasonably assured.

We follow ASC 605-25 “Revenue Recognition – Multiple-Element Arrangements” to determine the recognition of revenue under partnership and collaboration agreements that include multiple elements, including research and development services, achievement of development and commercialization milestones and drug product manufacturing. This standard provides guidance on the accounting for arrangements involving the delivery of multiple elements when the delivery of separate units of accounting occurs in different reporting periods. This standard addresses the determination of the units of accounting for multiple-element arrangements and how the arrangement’s consideration should be allocated to

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each unit of accounting. We adopted this accounting standard on a prospective basis for all multiple-element arrangements entered into on or after July 1, 2010, and for any multiple-element arrangements that were entered into prior to July 1, 2010, but materially modified on or after July 1, 2010. The adoption of this standard may result in revenue recognition patterns for future agreements that are materially different from the recognition of revenue under partnership and collaboration arrangements entered into prior to this date.

We evaluate the deliverables to determine if they meet the separation criteria under the standard and have stand-alone value and we allocate revenue to the elements based on their relative selling prices. We treat deliverables in an arrangement that do not meet the separation criteria in this standard as a single unit of accounting, generally applying applicable revenue recognition guidance for the final deliverable to the combined unit of accounting.

We recognize revenue from non-refundable up-front payments and license fees on a straight-line basis over the term of performance under the agreement. When the performance period is not specifically identifiable from the agreement, we estimate the performance period based upon provisions contained within the agreement, such as the duration of the research or development term, the existence, or likelihood of achievement of development commitments and any other significant commitments. For agreements entered into prior to July 1, 2010, the performance period is generally the estimated research or development term. For agreements entered into on or after this date, the performance period is measured as the time between the execution date and the completion of the inseparable technology transfer, which is typically a shorter period, generally up to six months.

We defer the up-front payments and record them as deferred revenue upon receipt, pending recognition. The deferred portions of payments are classified as a short-term or long-term liability in the accompanying Condensed Balance Sheets, depending on the period during which revenue is expected to be recognized.

Most of our agreements provide for milestone payments. In certain cases, we recognize all or a portion of each milestone payment as revenue when the specific milestone is achieved based on the applicable percentage earned of the estimated research or development effort, or other performance obligations that have elapsed, to the total estimated research and/or development effort. In other cases, when the milestone payment is attributed to our future development obligations, we recognize the revenue on a straight-line basis over the estimated remaining development effort. We record milestone payments as deferred revenue upon receipt until recognized.

We periodically review the expected performance periods under each of our agreements that provide for non-refundable up-front payments, license fees and milestone payments. We adjust the amortization periods when appropriate to reflect changes in assumptions relating to the duration of expected performance periods. We could accelerate revenue recognition for non-refundable up-front payments, license fees and milestone payments in the event of early termination of programs. Alternatively, we could decelerate such revenue recognition if programs are extended. While changes to such estimates have no impact on our reported cash flows, our reported revenue may be significantly influenced by our estimates of the period over which our obligations are expected to be performed and, therefore, over which revenue is recognized.

Cost of Revenue and Research and Development Expenses for Proprietary Programs

Where our collaboration agreements provide for us to conduct research and development and for which our partner has an option to obtain the right to conduct further development and to commercialize a product, we attribute a portion of our research and development costs to cost of revenue based on the percentage of total programs under the agreement that we conclude is likely to continue to be funded by the partner. These costs may not be incurred equally across all programs. In addition, we continually evaluate the progress of development activities under these agreements and if events or circumstances change in future periods that we reasonably believe would make it unlikely that a collaborator would continue to fund the same percentage of programs, we will adjust the allocation accordingly.

See Note 4 – Deferred Revenue, for further information about our partnerships.

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Recent Accounting Pronouncements

In June 2011, the FASB issued FASB ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income in U.S. GAAP and IFRS. This ASU provides companies the option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this disclosure standard in the first quarter of fiscal 2013 and it did not have a material impact on our results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the SEC did not or are not believed by management to have a material impact on our present or future financial statements.

NOTE 2 – SEGMENTS, GEOGRAPHIC INFORMATION AND SIGNIFICANT PARTNERSHIPS

Segments

All operations of Array are considered to be in one operating segment and, accordingly, no segment disclosures have been presented. The physical location of all of our equipment, leasehold improvements and other fixed assets is within the United States (U.S.). All of our partnership and collaboration agreements are denominated in U.S. dollars.

Significant Partnerships

The following partnerships contributed greater than 10% of our total revenue during the periods set forth below. The revenue from these partners as a percentage of total revenue was as follows:

	Three Months Ended December 31,				Six Months Ended December 31,			
	2012		2011		2012		2011	
Amgen Inc.	30.0	%	26.0	%	32.5	%	26.5	%
Novartis International Pharmaceutical, Ltd.	18.7	%	14.8	%	20.3	%	15.2	%
Celgene Corporation	21.6	%	4.1	%	18.4	%	6.1	%
Genentech Inc.	10.5	%	53.7	%	13.2	%	51.1	%
	80.8	%	98.6	%	84.4	%	98.9	%

The loss of one or more of our significant partners could have a material adverse effect on our business, operating results or financial condition. We do not require collateral from our partners, though most pay in advance. Although we are impacted by economic conditions in the biotechnology and pharmaceutical sectors, management does not believe significant credit risk exists as of December 31, 2012.

Geographic Information

The following table details revenue from partnerships by geographic area based on the country in which partners are located (dollars in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011

North America	$14,909	$19,517	$27,127	$38,048
Europe	3,465	3,472	7,080	7,068
Asia Pacific	3	239	3	242
	$18,377	$23,228	$34,210	$45,358

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NOTE 3 – MARKETABLE SECURITIES

Marketable securities consisted of the following as of December 31, 2012 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. Government agency securities	$49,392	$2	$—	$49,394
Mutual fund securities	222	—	—	222
Sub-total	49,614	2	—	49,616
Long-term available-for-sale securities:				
Mutual fund securities	664	—	—	664
Sub-total	664	—	—	664
Total	$50,278	$2	$—	$50,280

Marketable securities consisted of the following as of June 30, 2012 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. Government agency securities	$33,129	$—	$(1)	$33,128
Mutual fund securities	250	—	—	250
Sub-total	33,379	—	(1)	33,378
Long-term available-for-sale securities:				
Mutual fund securities	473	—	—	473
Sub-total	473	—	—	473
Total	$33,852	$—	$(1)	$33,851

The majority of the mutual fund securities shown in the above tables are securities held under the Array BioPharma Inc. Deferred Compensation Plan.

The estimated fair value of our marketable securities was classified into the fair value measurement categories as follows (dollars in thousands):

	December 31, 2012	June 30, 2012
Quoted prices in active markets for identical assets (Level 1)	$50,280	$33,851
Observable inputs other than quoted prices in active markets (Level 2)	—	—
Significant unobservable inputs (Level 3)	—	—
	$50,280	$33,851

The amortized cost and estimated fair value of available-for-sale securities by contractual maturity as of December 31, 2012, was as follows (dollars in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$49,614	$49,616
Due in one year to three years	664	664
	$50,278	$50,280

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NOTE 4 – DEFERRED REVENUE

Deferred revenue consisted of the following (dollars in thousands):

	December 31, 2012	June 30, 2012
Amgen Inc.	$—	$11,129
Celgene Corporation	8,043	11,340
DNA BioPharma, Inc.	500	500
Genentech, Inc.	4,648	7,810
Novartis International Pharmaceutical Ltd	17,912	24,788
Total deferred revenue	31,103	55,567
Less: Current portion	(26,534)	(42,339)
Deferred revenue, long-term	$4,569	$13,228

Amgen Inc.

In December 2009, Array granted Amgen the exclusive worldwide right to develop and commercialize our small molecule glucokinase activator, AMG 151/ARRY-403. Under the Collaboration and License Agreement, we were responsible for completing Phase 1 clinical trials on AMG 151. We also conducted further research funded by Amgen to create second generation glucokinase activators. Amgen is responsible for further development and commercialization of AMG 151 and any resulting second generation compounds. The agreement also provides us with an option to co-promote any approved drugs with Amgen in the U.S. with certain limitations.

In partial consideration for the rights granted to Amgen under the agreement, Amgen paid us an up-front fee of $60 million. In June 2012, we received an $8.5 million milestone payment following achievement of a pre-defined patient enrollment milestone in a Phase 2 trial. Amgen has also paid us for research on second generation compounds based on the number of full-time-equivalent scientists who worked on the discovery program. We substantially completed the funded discovery research under the agreement in the second quarter of fiscal 2012.

We are also entitled to receive up to approximately $429 million in additional aggregate milestone payments if all clinical and commercialization milestones specified in the agreement for AMG 151 are achieved. We will also receive royalties on sales of any approved drugs developed under the agreement.

We estimated that our obligations under the agreement would continue until December 31, 2012, at which time they were completed. Therefore, we recognized the up-front fee from the date of the agreement over the resulting three-year period on a straight-line basis. This fee is recorded in license and milestone revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss. We recognized the final $4.9 million and $9.8 million of license revenue under the agreement for each of the three and six months ended December 31, 2012 and 2011, respectively. We recognized the final previously deferred milestone revenue of $581 thousand and $1.3 million under the agreement for the three and six months ended December 31, 2012, respectively. There was no corresponding milestone revenue during the same periods of the prior year.

We record revenue for research performed by our scientists working on second generation compounds and for reimbursed development expenses in collaboration revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss. We recognized $1.1 million and $2.2 million under this agreement for the three and six months ended December 31, 2011, respectively. We do not expect to be paid additional amounts or to recognize additional revenue for research or the up-front fee because we completed most of the required deliverables under this agreement during the second quarter of fiscal 2012 and the up-front fee has been fully recognized.

Either party may terminate the agreement in the event of a material breach of a material obligation under the agreement by the other party upon 90 days prior notice. Amgen may terminate the agreement at any time upon notice of 60 or 90 days depending on the development activities in progress at the time of such notice. The parties have also agreed to indemnify each other for certain liabilities arising under the agreement.

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Novartis International Pharmaceutical Ltd.

Array and Novartis entered into a License Agreement in April 2010, granting Novartis the exclusive worldwide right to co-develop and commercialize MEK162/ARRY-162, as well as other specified MEK inhibitors. Under the agreement, we are responsible for completing the on-going Phase 1b expansion trial of MEK162 in patients with KRAS or BRAF mutant colorectal cancer and for certain further development of MEK162. Novartis is responsible for all other development activities and for the commercialization of products under the agreement, subject to our option to co-detail approved drugs in the U.S.

In consideration for the rights granted to Novartis under the agreement, we received $45 million, comprising an up-front and milestone payment, in the fourth quarter of fiscal 2010. We are entitled to receive up to approximately $413 million in aggregate milestone payments if all clinical, regulatory and commercial milestones specified in the agreement are achieved. In March 2011, we earned a $10.0 million milestone payment which was received in the fourth quarter of fiscal 2011. Novartis will also pay us royalties on worldwide sales of any approved drugs. In addition, as long as we continue to co-develop products under the program, the royalty rate on U.S. sales is significantly higher than the rate on sales outside the U.S. as described below.

We estimate that the obligations under the agreement will continue until April 2014 and, therefore, we are recognizing the up-front fee and milestone payments on a straight-line basis from the date the agreement was signed in April 2010 through that time. These amounts are recorded in license and milestone revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss.

During each of the three and six months ended December 31, 2012 and 2011, we recognized $2.5 million and $5.0 million, respectively, of license revenue and $938 thousand and $1.9 million, respectively, of milestone revenue under this agreement.

The Novartis agreement also contains co-development rights whereby we can elect to pay a percentage share of the combined total development costs. During the first two years of the co-development period, Novartis reimbursed us for 100% of our development costs. In the second quarter of fiscal 2013, we began to pay our percentage share of the combined development costs that have accrued since inception of the program, and that are subject to a maximum amount with annual caps. Annually, we have an option to opt out of paying our percentage share of these costs. If we opt out of paying our share of combined development costs with respect to one or more products, the U.S. royalty rate would then be reduced for any such product based on a specified formula, subject to a minimum that equals the royalty rate on sales outside the U.S.

We record a receivable in prepaid expenses and other current assets in the accompanying Condensed Balance Sheets for the amounts due from Novartis for the reimbursement of our development costs in excess of the annual cap. We record our percentage share of the combined development costs in cost of revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss and accrue these costs in the accompanying Condensed Balance Sheets as a current liability in co-development liability.

Our share of the combined development costs was $2.5 million and $1.4 million during the three months ended December 31, 2012 and 2011, respectively, and $4.3 million and $2.4 million during the six months ended December 31, 2012 and 2011, respectively. We recorded co-development liabilities of $4.0 million and $9.2 million as of December 31, 2012 and June 30, 2012, respectively. We paid Novartis $9.2 million of the accrued co-development liability in the second quarter of fiscal 2013 in accordance with the terms of the agreement. We had related receivables of $1.5 million and $950 thousand in prepaid expenses and other current assets as of December 31, 2012 and June 30, 2012, respectively, for the reimbursable development costs we incurred during the respective preceding three month periods in excess of the annual cap. We incurred development costs for the Array-managed studies subject to the

co-development cost sharing arrangement of $1.5 million and $633 thousand during the three months ended December 31, 2012 and 2011, respectively, and $2.7 million and $1.3 million during the six months ended December 31, 2012 and 2011, respectively.

The agreement will be in effect on a product-by-product and country-by-country basis until no further payments are due with respect to the applicable product in the applicable country, unless terminated earlier. Either party may terminate the agreement in the event of an uncured material breach of a material obligation under the agreement by the other party upon 90 days prior notice. Novartis may terminate portions of the agreement following a change in control of Array and may terminate the agreement in its entirety or on a product-by-product basis with 180 days prior notice. Array and Novartis have each further agreed to indemnify the other party for manufacturing or commercialization activities conducted by us under the agreement: negligence, willful misconduct or breach of covenants, warranties or representations made by us under the agreement.

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Celgene Corporation

In September 2007, Array entered into a worldwide strategic collaboration with Celgene focused on the discovery, development and commercialization of novel therapeutics in cancer and inflammation. Under the agreement, Celgene made an up-front payment of $40 million to us in part to provide research funding for activities we conducted. We are responsible for all discovery development through Phase 1 or Phase 2a. Celgene has an option to select a limited number of drugs developed under the collaboration that are directed to up to two of four mutually-selected discovery targets and will receive exclusive worldwide rights to these two drugs, except for limited co-promotional rights in the U.S. Array retains all rights to the programs for which Celgene does not exercise its option.

In June 2009, the agreement was amended to substitute a new discovery target in place of an existing target and Celgene paid us $4.5 million in consideration for the amendment. No other terms of the agreement with Celgene were modified by the amendment. In September 2009, Celgene notified Array that it was waiving its rights to one of the discovery targets under the collaboration, and during fiscal 2012 research on one additional target lapsed. As of December 31, 2012, Celgene retains the option to select both of two remaining targets. The options will expire on the earlier of the completion of Phase 1 or Phase 2a trials for the applicable drug or September 2014.

In January 2012, the agreement was further amended to continue drug discovery activities we were conducting on one of the existing targets. Celgene paid us $1.5 million during fiscal 2012 as compensation for the additional research. We recognized the final $250 thousand of this payment as collaboration revenue during the quarter ended September 30, 2012.

In November 2012, we entered into the third amendment to the agreement to conduct preclinical studies on one or more compounds discovered in the course of research conducted under the January 2012 amendment. We received $3.0 million during the second quarter of fiscal 2013 as partial consideration to conduct the studies, of which we recognized $1.5 million as collaboration revenue during the three months ended December 31, 2012 for related services rendered through that date. We anticipate recognizing the remaining deferred balance during the third quarter of fiscal 2013 as the remaining performance obligations are fulfilled.

Array is entitled to receive, for each drug for which Celgene exercises an option, potential milestone payments of up to $235 million if certain discovery, development and regulatory milestones are achieved and an additional $300 million if certain commercial milestones are achieved. Under the third amendment to the agreement, we agreed to adjust the discovery milestone payable by Celgene relating to the target identified in that amendment if Celgene exercises its option to develop that target early. In November 2010, we earned and subsequently received a $10.0 million milestone payment upon securing an Investigational New Drug (IND) application for one of the programs. We are also entitled to receive royalties on net sales of any drugs.

We regularly review and adjust the estimated period of the discovery obligations to determine the period over which up-front fees and milestone payments will be recognized. Upon execution of the agreement, we estimated that the discovery obligations under the agreement would continue through September 2014 and accordingly began recognizing as revenue the up-front fees received from the date of receipt through September 2014. During the quarter ended September 30, 2011, we estimated that the remaining period for our discovery obligations under the agreement was likely to be only through June 2013. Therefore, in the second quarter of fiscal 2012 we began recognizing the remaining unamortized balance of the up-front payment through this shorter period on a straight-line basis. Throughout the majority of fiscal 2012, research activities associated with the up-front fee were suspended while our drug discovery activities were directed toward the additional funded research discussed above. During the first quarter of fiscal 2013, we began amortizing the remaining deferred balance through January 2014 when we expect to conclude our discovery obligations.

We recognized $2.5 million and $943 thousand in revenue related to the up-front and milestone payments durargin-top: 6pt">The carrying amounts of our long-term debt are as follows:

	December 31,	
	2008	2007
	(In thousands)	
Credit Agreement	$ 200,000	$
Senior Notes		
Principal	185,000	185,000
Unamortized discount	(2,344)	(2,724)
Fair value hedge interest rate swap		(841)
Unamortized premium dedesignated fair value hedge	2,137	
	184,793	181,435
Total debt	384,793	181,435
Less short-term borrowings under credit agreement	29,000	
Total long-term debt	$ 355,793	$ 181,435

Our interest rate swap contracts are discussed under Risk Management.

The following table presents our long-term contractual obligations as of December 31, 2008.

Our long-term debt consists of the $185.0 million principal balance of our Senior Notes and $171.0 millon of outstanding principal under our Credit Agreement that we have classified as long-term debt.

The pipeline operating lease amounts below reflect the exercise of the first of three 10-year extensions, expiring in 2017, on our lease agreement for the refined products pipeline between White Lakes Junction and Kuntz Station in New Mexico. However, these amounts exclude the second and third 10-year lease extensions, which based on the current outlook, are likely to be exercised.

Most of our right of way agreements are renewable on an annual basis, and the right of way lease payments below include only obligations under the remaining non-cancelable terms of these agreements at December 31, 2008. For the foreseeable future, we intend to continue renewing these agreements and expect to incur right of way expenses in addition to the payments listed below.

In consideration for Holly s assistance in obtaining our joint venture opportunity in the SLC Pipeline discussed under Capital Requirements , we will pay Holly a $2.5 million finder s fee upon the closing of our investment in the joint venture with Plains.

	Payments Due by Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	Over 5 Years
			(In thousands)		
Long-term debt principal	$ 356,000	$	$	$ 171,000	$ 185,000
Long-term debt interest	75,157	11,563	23,125	23,125	17,344
Pipeline operating lease	52,343	6,158	12,316	12,316	21,553
Right of way leases	2,130	206	393	329	1,202
Other	23,049	5,221	5,178	4,600	8,050

Total	$ 508,679	$ 23,148	$ 41,012	$ 211,370	$ 233,149

Impact of Inflation

Inflation in the United States has been relatively low in recent years and did not have a material impact on our results of operations for the years ended December 31, 2008, 2007 and 2006.

A substantial majority of our revenues are generated under long-term contracts that include the right to increase our rates and minimum revenue guarantees annually for increases in the PPI. Historically, the PPI has increased an average of 4.3% annually over the past 5 calendar years. With respect to our 15-

year transportation agreement with Alon, recent data indicates that the annual PPI adjustment may result in a minor tariff rate decrease.

Environmental Matters

Our operation of pipelines, terminals, and associated facilities in connection with the storage and transportation of refined products is subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment, or otherwise relating to the protection of the environment. For additional discussion on environmental matter, please see Environmental Regulation and Remediation under Item 1, Business .

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions. We consider the following policies to be the most critical to understanding the judgments that are involved and the uncertainties that could impact our results of operations, financial condition and cash flows.

Revenue Recognition

Revenues are recognized as products are shipped through our pipelines and terminals. Additional pipeline transportation revenues result from an operating lease by Alon USA, L.P. of an interest in the capacity of one of our pipelines.

Billings to customers for obligations under their quarterly minimum revenue commitments are recorded as deferred revenue liabilities if the customer has the right to receive future services for these billings. The revenue is recognized at the earlier of:

- the customer receives the future services provided by these billings,
- the period in which the customer is contractually allowed to receive the services expires, or
- we determine a high likelihood that we will not be required to provide services within the allowed period.

We will recognize shortfall billings as revenue prior to the expiration of the contractual term period to provide services only when we determine with a high likelihood that we will not be required to provide services within the allowed period. We determine this when, based on current and projected shipping levels, our pipeline systems will not have the necessary capacity to enable a customer to exceed its minimum volume levels to such a degree as to utilize the shortfall credit within its respective contractual shortfall make-up period or the customer acknowledges that its anticipated shipment levels will not permit it to utilize such a shortfall credit within the respective contractual make-up period. To date, we have not recognized any shortfall billings as revenue prior to the expiration of the contractual term period.

Long-Lived Assets

We calculate depreciation and amortization based on estimated useful lives and salvage values of our assets. When assets are placed into service, we make estimates with respect to their useful lives that we believe are reasonable. However, factors such as competition, regulation or environmental matters could cause us to change our estimates, thus impacting the future calculation of depreciation and amortization. We evaluate long-lived assets for potential impairment by identifying whether indicators of impairment exist and, if so, assessing whether the long-lived assets are recoverable from estimated future undiscounted cash flows. The actual amount of impairment loss, if any, to be recorded is equal to the amount by which a long-lived asset s carrying value exceeds its fair value. Estimates of future discounted cash flows and fair value of assets require subjective assumptions with regard to future operating results,

and actual results could differ from those estimates. No impairments of long-lived assets were recorded during the years ended December 31, 2008, 2007 and 2006.

Contingencies

It is common in our industry to be subject to proceedings, lawsuits and other claims related to environmental, labor, product and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these types of matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these types of contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to developments in each matter or changes in approach such as a change in settlement strategy in dealing with these potential matters.

Recent Accounting Pronouncements

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

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51. SFAS No. 160 changes the classification of non-controlling interests, also referred to as minority interests, in the consolidated financial statements. It also establishes a single method of accounting for changes in a parent company s ownership interest that do not result in deconsolidation and requires a parent company to recognize a gain or loss when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We will adopt this standard effective January 1, 2009. Upon adoption of this standard, our minority interest balance will be reclassified as a component of Partners equity in our consolidated balance sheets. At December 31, 2008, our minority interest balance was $10.2 million.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133. This standard amends and expands the disclosure requirements of SFAS 133 to include disclosure of the objectives and strategies related to an entity s use of derivative instruments, disclosure of how an entity accounts for its derivative instruments and disclosure of the financial impact including effect on cash flows associated with derivative activity. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We will adopt this standard effective January 1, 2009. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations and cash flows.

EITF No. 07-04 Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships

In March 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-04, Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships (MLP s). This standard provides guidance in the application of the two-class method in computing earnings per unit to reflect an MLP s contractual obligation to make distributions to the general partner, limited partners, and incentive distribution rights holder. EITF No. 07-04 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt this standard effective January 1, 2009. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations and cash flows.

FASB Staff Position (FSP) No. EITF 03-6-1 Determining Whether Instruments Granted in Share-Based Transactions Are Participating Securities

In June 2006, the FASB issued FSP No. 03-6-1, Determining Whether Instruments Granted in Share-Based Transactions Are Participating Securities. This standard provides guidance in determining whether unvested instruments granted under share-based payment transactions are participating securities and, therefore, should be included in earnings per share calculations under the two-class method provided under FASB No. 128, Earnings per Share. FSP No. 03-6-1 is effective for fiscal years

beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt this standard effective January 1, 2009. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations and cash flows.

RISK MANAGEMENT

As of December 31, 2008, we have three interest rate swap contracts.

We entered into an interest rate swap to hedge our exposure to the cash flow risk caused by the effects of LIBOR changes on the $171.0 million Credit Agreement advance that we used to finance our purchase of the Crude Pipelines and Tankage Assets from Holly. This interest rate swap effectively converts our $171.0 million LIBOR based debt to fixed rate debt having an interest rate of 3.74% plus an applicable margin, currently 1.75%, which equaled an effective interest rate of 5.49% as of December 31, 2008. The maturity date of this swap contract is February 28, 2013. We intend to renew our Credit Agreement prior to its expiration in August 2011 and continue to finance the $171.0 million balance until the swap matures.

We have designated this interest rate swap as a cash flow hedge. Based on our assessment of effectiveness using the change in variable cash flows method, we have determined that this interest rate swap is effective in offsetting the variability in interest payments on our $171.0 million variable rate debt resulting from changes in LIBOR. Under hedge accounting, we adjust our cash flow hedge to its fair value on a quarterly basis with a corresponding offset to accumulated other comprehensive income. 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 swap against the expected future interest payments on our $171.0 million variable rate debt. Any ineffectiveness is reclassified from accumulated other comprehensive income to interest expense. As of December 31, 2008, we had no ineffectiveness on our cash flow hedge.

We also have an interest rate swap contract that effectively converts interest expense associated with $60.0 million of our 6.25% Senior Notes from fixed to variable rate debt (Variable Rate Swap). Under this swap contract, interest on the $60.0 million notional amount is computed using the three-month LIBOR plus a spread of 1.1575%, which equaled an effective interest rate of 3.36% as of December 31, 2008. The maturity date of this swap contract is March 1, 2015, matching the maturity of the Senior Notes.

In October 2008, we entered into an additional interest rate swap contract, effective December 1, 2008, that effectively unwinds the effects of the Variable Rate Swap discussed above, converting $60.0 million of our hedged long-term debt back to fixed rate debt (Fixed Rate Swap). Under the Fixed Rate Swap, interest on a notional amount of $60.0 million is computed at a fixed rate of 3.59% versus three-month LIBOR which when added to the 1.1575% spread on the Variable Rate Swap results in an effective fixed interest rate of 4.75%. The maturity date of this swap contract is December 1, 2013.

Our interest rate swaps not having a hedge designation are measured quarterly at fair value either as an asset or a liability in our consolidated balance sheets with a corresponding entry to interest expense. For the year ended December 31, 2008, we recognized $2.3 million in interest expense attributable to fair value adjustments to our interest rate swaps.

Prior to the execution of our Fixed Rate Swap, the Variable Rate Swap was designated as a fair value hedge of $60.0 million in outstanding principal under the Senior Notes. This hedge met the requirements to assume no ineffectiveness and was accounted for using the shortcut method of accounting whereby offsetting fair value adjustments to the underlying swap were made to the carrying value of the Senior Notes, effectively adjusting the carrying value this $60.0 million to its fair value. We dedesignated this hedge in October 2008. At this time, the carrying balance of our Senior Notes included a $2.2 million premium due to the application of hedge accounting until the dedesignation date. This premium is being amortized as a reduction to interest expense over the remaining term of the Variable Rate Swap.

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We record interest expense equal to the variable rate payments under the swaps. Receipts under the swap agreements are recorded as a reduction of interest expense.
Additional information on our interest rate swaps is as follows:

Interest Rate Swaps	Balance Sheet Location	Fair Value		Location of Offsetting Balance	Offsetting Amount	
				(In thousands)		
Asset						
Fixed-to-variable interest rate swap $60 million of 6.25% Senior Notes	Other assets	$	4,079	Long-term debt	$	(2,195)
				Interest expense	$	(1,884)
		$	4,079		$	(4,079)
Liability						
Cash flow hedge $171 million LIBOR based debt	Other long-term liabilities	$	(12,967)	Accumulated other comprehensive income	$	12,967
Variable-to-fixed interest rate swap $60 million	Other long-term liabilities		(4,166)	Interest expense		4,166
		$	(17,133)		$	17,133

The market risk inherent in our fixed-rate debt and positions is the potential change arising from increases or decreases in interest rates as discussed below.
At December 31, 2008, we had an outstanding principal balance on our 6.25% Senior Notes of $185.0 million. By means of our interest rate swap contracts, we have effectively converted the 6.25% fixed rate on $60.0 million of the Senior Notes to a fixed rate of 4.75%. A change in interest rates would generally affect the fair value of the debt, but not our earnings or cash flows. At December 31, 2008, the fair value of our Senior Notes was $124.0 million. We estimate a hypothetical 10% change in the yield-to-maturity applicable to the Senior Notes at December 31, 2008 would result in a change of approximately $7.8 million in the fair value of the debt.
At December 31, 2008, our cash and cash equivalents included highly liquid investments with a maturity of three months or less at the time of purchase. Due to the short-term nature of our cash and cash equivalents, a hypothetical 10% increase in interest rates would not have a material effect on the fair market value of our portfolio. Since we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected by the effect of a sudden change in market interest rates on our investment portfolio.
Our operations are subject to normal hazards of operations, including fire, explosion and weather-related perils. We maintain various insurance coverages, including business interruption insurance, subject to certain deductibles. We are not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in our judgment, do not justify such expenditures.
We have formed a risk management oversight committee that is made up of members from our senior management. This committee monitors our risk environment and provides direction for activities to mitigate, to an acceptable level, identified risks that may adversely affect the achievement of our goals.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. See Risk Management under Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of market

risk exposures that we have with respect to our cash and cash equivalents and long-term debt. We utilize derivative instruments to hedge our interest rate exposure, also discussed under Risk Management.

Since we do not own products shipped on our pipelines or terminalled at our terminal facilities we do not have market risks associated with commodity prices.

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Item 8. Financial Statements and Supplementary Data

MANAGEMENT S REPORT ON ITS ASSESSMENT OF THE COMPANY S INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Holly Energy Partners, L.P. (the Partnership) is responsible for establishing and maintaining adequate internal control over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the Partnership s internal control over financial reporting as of December 31, 2008 using the criteria for effective control over financial reporting established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2008, the Partnership maintained effective internal control over financial reporting.

The Partnership s independent registered public accounting firm has issued an attestation report on the effectiveness of the Partnership s internal control over financial reporting as of December 31, 2008. That report appears on page 62.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors of Holly Logistic Services, L.L.C. and
Unitholders of Holly Energy Partners, L.P.

We have audited Holly Energy Partners, L.P. s (the Partnership) internal control over financial reporting as of December 31 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Partnership s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management s report. Our responsibility is to express an opinion on the effectiveness of the partnership s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Holly Energy Partners, L.P. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Holly Energy Partners, L.P. as of December 31, 2008 and 2007, and the related consolidated statements of income, partners equity (deficit), and cash flows for each of the three years in the period ended December 31, 2008, our report dated February 13, 2009, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Dallas, Texas
February 13, 2009

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Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006	67
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors of Holly Logistic Services, L.L.C. and
Unitholders of Holly Energy Partners, L.P.

We have audited the accompanying consolidated balance sheets of Holly Energy Partners, L.P. (the Partnership) as of December 31, 2008 and 2007, and the related consolidated statements of income, partners equity (deficit), and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Partnership s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Holly Energy Partners, L.P. at December 31, 2008 and 2007, and the related consolidated results of its operations and its cash flows, for each of the three years in the period ended December 31, 2008 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Holly Energy Partners, L.P. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Dallas, Texas
February 13, 2009

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Holly Energy Partners, L.P.
Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
	(In thousands, except unit data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,269	$ 10,321
Accounts receivable:		
Trade	5,082	6,611
Affiliates	9,395	5,700
	14,477	12,311
Prepaid and other current assets	593	546
Total current assets	20,339	23,178
Properties and equipment, net	290,284	158,600
Transportation agreements, net	122,383	54,273
Other assets	6,682	2,853
Total assets	$ 439,688	$ 238,904
LIABILITIES AND PARTNERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 5,816	$ 3,011
Accounts payable affiliates	2,202	6,021
Accrued interest	2,845	2,996
Deferred revenue	15,658	3,700
Accrued property taxes	1,145	1,177
Other current liabilities	1,505	827
Short-term borrowings under credit agreement	29,000	
Total current liabilities	58,171	17,732
Commitments and contingencies		
Long-term debt	355,793	181,435
Other long-term liabilities	17,604	1,181
Minority interest	10,218	10,740
Partners equity (deficit):		
Common unitholders (8,390,000 and 8,170,000 units issued and outstanding at December 31, 2008 and 2007, respectively)	169,126	172,807
	(85,059)	(73,725)

Subordinated unitholders (7,000,000 units issued and outstanding at December 31, 2008 and 2007)		
Class B subordinated unitholders (937,500 units issued and outstanding at December 31, 2008 and 2007)	21,455	22,973
General partner interest (2% interest)	(94,653)	(94,239)
Accumulated other comprehensive loss	(12,967)	
Total partners equity (deficit)	(2,098)	27,816
Total liabilities and partners equity (deficit)	$ 439,688	$ 238,904

See accompanying notes.

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Holly Energy Partners, L.P.
Consolidated Statements of Income

	Years Ended December 31,		
	2008	**2007**	**2006**
	(In thousands, except per unit data)		
Revenues:			
Affiliates	$ 85,040	$ 63,709	$ 52,878
Third parties	33,048	41,698	36,316
	118,088	105,407	89,194
Operating costs and expenses:			
Operations	41,270	32,911	28,630
Depreciation and amortization	22,889	14,382	15,330
General and administrative	6,377	5,043	4,854
	70,536	52,336	48,814
Operating income	47,552	53,071	40,380
Other income (expense):			
Interest income	159	533	899
Interest expense	(21,763)	(13,289)	(13,056)
Gain on sale of assets	36	298	
Other Income	996		
Minority interest in Rio Grande Pipeline Company	(1,278)	(1,067)	(680)
	(21,850)	(13,525)	(12,837)
Income before income taxes	25,702	39,546	27,543
State income tax	(335)	(275)	
Net income	25,367	39,271	27,543
Less general partner interest in net income	3,543	2,932	1,710
Limited partners interest in net income	$ 21,824	$ 36,339	$ 25,833
Net income per limited partners unit basic and diluted	$ 1.34	$ 2.26	$ 1.60

Weighted average limited partners units outstanding	16,291	16,108	16,108

See accompanying notes.

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Holly Energy Partners, L.P.
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Cash flows from operating activities			
Net income	$ 25,367	$ 39,271	$ 27,543
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,889	14,382	15,330
Change in fair value interest rate swaps	2,282		
Minority interest in Rio Grande Pipeline Company	1,278	1,067	680
Amortization of restricted and performance units	1,688	1,375	927
Gain on sale of assets	(36)	(298)	
(Increase) decrease in current assets:			
Accounts receivable	1,529	728	(4,263)
Accounts receivable affiliates	(3,695)	16	(637)
Prepaid and other current assets	(47)	666	115
Increase (decrease) in current liabilities:			
Accounts payable	2,805	(770)	761
Accounts payable affiliates	(3,819)	3,823	764
Accrued interest	(151)	55	49
Deferred revenue	11,958	(1,786)	4,473
Accrued property taxes	(32)	309	(144)
Other current liabilities	678	(271)	(215)
Other, net	957	489	470
Net cash provided by operating activities	63,651	59,056	45,853
Cash flows from investing activities			
Additions to properties and equipment	(42,303)	(9,957)	(9,107)
Acquisition of crude pipelines and tankage assets	(171,000)		
Proceeds from sale of assets	36	325	
Net cash used for investing activities	(213,267)	(9,632)	(9,107)
Cash flows from financing activities			
Net borrowings under credit agreement	200,000		
Proceeds from issuance of common units	104		
Contribution from general partner	186		
Distributions to partners	(52,426)	(47,974)	(43,670)
Distributions to minority interest	(1,800)	(1,290)	(1,470)
Purchase of units for restricted grants	(795)	(1,082)	(634)
Deferred financing costs	(705)	(296)	
Other		(16)	

Net cash provided by (used for) financing activities	144,564	(50,658)	(45,774)
Cash and cash equivalents			
Decrease for the year	(5,052)	(1,234)	(9,028)
Beginning of year	10,321	11,555	20,583
End of year	$ 5,269	$ 10,321	$ 11,555

See accompanying notes.

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Holly Energy Partners, L.P.
Consolidated Statements of Partners Equity (Deficit)

	Common Units	Subordinated Units	Class B Subordinated Units	General Partner Interest	Accumulated Other Comprehensive Loss	Total
			(In thousands)			
Balance December 31, 2005	$ 184,568	$ (63,153)	$ 24,388	$ (93,743)	$	$ 52,060
Distributions to partners	(21,120)	(18,095)	(2,423)	(2,032)		(43,670)
Purchase of units for restricted grants	(634)					(634)
Amortization of restricted units	927					927
Net income	13,103	11,226	1,504	1,710		27,543
Balance December 31, 2006	176,844	(70,022)	23,469	(94,065)		36,226
Distributions to partners	(22,762)	(19,495)	(2,611)	(3,106)		(47,974)
Purchase of units for restricted grants	(1,082)					(1,082)
Amortization of restricted and performance units	1,375					1,375
Net income	18,432	15,792	2,115	2,932		39,271
Balance December 31, 2007	172,807	(73,725)	22,973	(94,239)		27,816
Distributions to partners	(24,788)	(20,720)	(2,775)	(4,143)		(52,426)
Purchase of units for restricted grants	(795)					(795)
Amortization of restricted and performance units	1,688					1,688
Issuance of common units	9,104					9,104
Cost of issuing common units	(71)					(71)
Capital contribution				186		186
Comprehensive income:						
Net income	11,181	9,386	1,257	3,543		25,367
					(12,967)	(12,967)

Change in fair value cash flow hedge						
Comprehensive income	11,181	9,386	1,257	3,543	(12,967)	12,400
Balance December 31, 2008	$ 169,126	$ (85,059)	$ 21,455	$ (94,653)	$ (12,967)	$ (2,098)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

Note 1: Description of Business and Summary of Significant Accounting Policies

Description of Business

Holly Energy Partners, L.P. (HEP) together with its consolidated subsidiaries, is a publicly held master limited partnership, currently 46% owned by Holly Corporation (Holly). 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 u refer to HEP unless the context otherwise indicates.

We operate in one business segment the operation of petroleum product and crude oil pipelines, tankage and terminal facilities.

One of Holly s wholly-owned subsidiaries owns a refinery in Artesia, New Mexico, which Holly operates in conjunction with crude, vacuum distillation and other facilities situated in Lovington, New Mexico (collectively, the Navajo Refinery). The Navajo Refinery produces high-value refined products such as gasoline, diesel fuel and jet fuel and serves markets in the southwestern United States and northern Mexico. We own and operate the two parallel intermediate feedstock pipelines (the Intermediate Pipelines), which connect the New Mexico refining facilities. Our operations serving the Navajo Refinery include refined product pipelines that serve as part of the refinery s product distribution network. We also own and operate crude oil pipelines and on-site crude oil tankage that supply and support the refinery. Our terminal operations serving the Holly s Navajo Refinery include a truck rack at the Navajo Refinery and five integrated refined product terminals located in New Mexico, Texas and Arizona.

Another of Holly s wholly-owned subsidiaries owns a refinery located near Salt Lake City, Utah (the Woods Cross Refinery). Our operations serving the Woods Cross Refinery include crude oil and refined product pipelines, crude oil tankage and a truck rack at the refinery, a refined product terminal in Spokane, Washington and a 50% non-operating interest in product terminals in Boise and Burley, Idaho.

See Note 2 for information on the crude pipelines and tankage assets acquired from Holly on February 29, 2008 (the Crude Pipelines and Tankage Assets).

We also own and operate refined products pipelines and terminals, located primarily in Texas, that service Alon USA, Inc. s (Alon) refinery in Big Spring, Texas.

Additionally, we own a refined product terminal in Mountain Home, Idaho, and a 70% interest in Rio Grande Pipeline Company (Rio Grande), which provides transportation of liquid petroleum gases to northern Mexico.

Principles of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries and Rio Grande. All significant inter-company transactions and balances have been eliminated. The pipeline and terminal assets that were contributed to us from Holly concurrently with the completion of our initial public offering in 2004, as well as the intermediate pipeline assets that were purchased from Holly in July 2005 were accounted for as transactions among entities under common control. Accordingly, these assets were recorded on our balance sheets at Holly s book basis instead of our purchase price or fair value.

If the assets transferred to us upon our initial public offering in 2004 and the intermediate pipelines purchased from Holly in 2005 had been acquired from third parties, our acquisition cost in excess of Holly s basis in the transferred assets of $157.3 million would have been recorded as increases to our properties and equipment and intangible assets instead of reductions to our partners equity.

Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, we consider all highly liquid investments with maturity of three months or less at the time of purchase to be cash equivalents. The carrying amounts reported on the balance sheet approximate fair value due to the short-term maturity of these instruments.

Accounts Receivable

The majority of the accounts receivable are due from affiliates of Holly, Alon or independent companies in the petroleum industry. Credit is extended based on evaluation of the customer s financial condition and, in certain circumstances, collateral such as letters of credit or guarantees, may be required. Credit losses are charged to income when accounts are deemed uncollectible and historically have been minimal.

Inventories

Inventories consisting of materials and supplies used for operations are stated at the lower of cost, using the average cost method, or market and are shown under Prepaid and other current assets in our consolidated balance sheets.

Properties and Equipment

Properties and equipment are stated at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the assets; primarily 10 to 16 years for terminal facilities, 23 to 33 years for pipelines and 3 to 10 years for corporate and other assets. Maintenance, repairs and major replacements are generally expensed as incurred. Costs of replacements constituting improvement are capitalized.

Transportation Agreements

The transportation agreement assets are stated at cost and are being amortized over the periods of the agreements using the straight-line method.

Long-Lived Assets

We evaluate long-lived assets, including intangible assets, for potential impairment by identifying whether indicators of impairment exist and, if so, assessing whether the long-lived assets are recoverable from estimated future undiscounted cash flows. The actual amount of impairment loss, if any, to be recorded is equal to the amount by which a long-lived asset s carrying value exceeds its fair value. No impairments of long-lived assets were recorded during the periods included in these financial statements.

Asset Retirement Obligations

We record legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of our long-lived assets. The fair value of the estimated cost to retire a tangible long-lived asset is recorded in the period in which the liability is incurred and when a reasonable estimate of the fair value of the liability can be made. If a reasonable estimate cannot be made at the time the liability is incurred, we record the liability when sufficient information is available to estimate the liability s fair value.

We have asset retirement obligations with respect to certain of our assets due to legal obligations to clean and/or dispose of various component parts at the time they are retired. At December 31, 2008, an asset retirement obligation of $0.4 million is included in Other long-term liabilities in our consolidated balance sheets.

Fair Value Measurements

We adopted Statement of Financial Accounting Standards (SFAS) No. 157 Fair Value Measurements on January 1, 2008 for financial instruments that we recognize at fair value on a recurring basis.

This standard defines fair value, establishes a framework for measuring fair value and prescribes expanded disclosures about fair value measurements. It also establishes a fair value hierarchy that categorizes inputs used in fair value measurements into three broad levels. Under this hierarchy, quoted prices in active markets for identical assets or liabilities are considered the most reliable evidence of fair value and are given the highest priority level (level 1). Quoted market prices for similar assets and liabilities in an active market, quoted prices for identical assets or liabilities in an inactive market and calculation techniques utilizing observable market inputs are given a lower priority level (Level 2). Unobservable inputs are considered the least reliable and are given the lowest priority level (level 3).

We have interest rate swaps that we measure at fair value on a recurring basis using level 2 inputs. Our interest rate swap fair value measurements are based on the net present value of expected future cash flows related to both variable and fixed rate legs of our interest rate swap agreements. Our measurements are computed using the forward LIBOR yield curve, a market-based observable input, at our respective measurement dates. See Note 6 for additional information on our interest rate swaps.

Revenue Recognition

Revenues are recognized as products are shipped through our pipelines and terminals. Billings to customers for obligations under their quarterly minimum revenue commitments are recorded as deferred revenue liabilities if the customer has the right to receive future services for these billings. The revenue is recognized at the earlier of:

- the customer receives the future services provided by these billings,
- the period in which the customer is contractually allowed to receive the services expires, or
- we determine a high likelihood that we will not be required to provide services within the allowed period.

We recognize shortfall billings as revenue prior to the expiration of the contractual term period to provide services only when we determine with a high likelihood that we will not be required to provide services within the allowed period. We determine this when based on current and projected shipping levels, that our pipeline systems will not have the necessary capacity to enable a customer to exceed its minimum volume levels to such a degree as to utilize the shortfall credit within its respective contractual shortfall make up period or the customer acknowledges that its anticipated shipment levels will not permit it to utilize such a shortfall credit within the respective contractual make up period. To date, we have not recognized any shortfall billings as revenue prior to the expiration of the contractual term period.

Additional pipeline transportation revenues result from an operating lease to a third party of an interest in the capacity of one of our pipelines.

Taxes billed and collected from our pipeline and terminal customers are recorded on a net basis with no effect on net income.

Environmental Costs

Environmental costs are expensed if they relate to an existing condition caused by past operations and do not contribute to current or future revenue generation. Liabilities are recorded when site restoration and environmental remediation, cleanup and other obligations are either known or considered probable and can be reasonably estimated. Environmental costs recoverable through insurance, indemnification arrangements or other sources are included in other assets to the extent such recoveries are considered probable. At December 31, 2008, we had an accrual of $0.2 million related to environmental remediation obligations.

State Income Tax

Effective January 1, 2007, the Texas margin tax applied to legal entities conducting business in Texas, including previously non-taxable entities such as limited partnerships and limited liability partnerships. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenues and expenses and therefore has the characteristics of an income tax.

We are organized as a pass-through for federal income tax purposes. As a result, our partners are responsible for federal income taxes based on their respective share of taxable income.

Net income for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax bases and financial reporting bases of assets and liabilities and the taxable income allocation requirements under the partnership agreement. Individual unitholders have different investment bases depending upon the timing and price of acquisition of their partnership units. Furthermore, each unitholder s tax accounting, which is partially dependent upon the unitholder s tax position, differs from the accounting followed in the consolidated financial statements. Accordingly, the aggregate difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined because information regarding each unitholder s tax attributes in our partnership is not available to us.

Net Income per Limited Partners Unit

We have identified the general partner interest and the subordinated units as participating securities and use the two-class method when calculating the net income per unit applicable to limited partners, which is based on the weighted-average number of common and subordinated units outstanding during the year. Net income per unit applicable to limited partners (including subordinated units and Class B subordinated units) is computed by dividing limited partners interest in net income, after deducting the general partner s 2% interest and incentive distributions, by the weighted-average number of outstanding common and subordinated units.

Recent Accounting Pronouncements

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

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51. SFAS No. 160 changes the classification of non-controlling interests, also referred to as minority interests, in the consolidated financial statements. It also establishes a single method of accounting for changes in a parent company s ownership interest that do not result in deconsolidation and requires a parent company to recognize a gain or loss when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We will adopt this standard effective January 1, 2009. Upon adoption of this standard, our minority interest balance will be reclassified as a component of Partners equity in our consolidated balance sheets. At December 31, 2008, our minority interest balance was $10.2 million.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133. This standard amends and expands the disclosure requirements of SFAS 133 to include disclosure of the objectives and strategies related to an entity s use of derivative instruments, disclosure of how an entity accounts for its derivative instruments and disclosure of the financial impact including effect on cash flows associated with derivative activity. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008 and interim periods with in those fiscal years. We will adopt this standard effective January 1, 2009. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations and cash flows.

EITF No. 07-04 Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships

In March 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-04, Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships (MLP s). This standard provides guidance in the application of the two-class method in computing earnings per unit to reflect an MLP s contractual obligation to make distributions to the general partner, limited partners, and incentive distribution rights holder. EITF No. 07-04 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. We will adopt this standard effective January 1, 2009. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations and cash flows.

FASB Staff Position (FSP) No. EITF 03-6-1 Determining Whether Instruments Granted in Share-Based Transactions Are Participating Securities

In June 2006, the FASB issued FSP No. 03-6-1, Determining Whether Instruments Granted in Share-Based Transactions Are Participating Securities. This standard provides guidance in determining whether unvested instruments granted under share-based payment transactions are participating securities and, therefore, should be included in earnings per share calculations under the two-class method provided under SFAS No. 128, Earnings per Share. FSP No. 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt this standard effective January 1, 2009. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations and cash flows.

Note 2: Holly Crude Pipelines and Tankage Transaction

On February 29, 2008, we acquired the Crude Pipelines and Tankage Assets from Holly for $180.0 million that consist of crude oil trunk lines that deliver crude oil to Holly s Navajo Refinery in southeast New Mexico, gathering and connection pipelines located in west Texas and New Mexico, on-site crude tankage located within the Navajo and Woods Cross refinery complexes, a jet fuel products pipeline between Artesia and Roswell, New Mexico, a leased jet fuel terminal in Roswell, New Mexico and crude oil and product pipelines that support Holly s Woods Cross Refinery. The consideration paid consisted of $171.0 million in cash and 217,497 of our common units having a fair value of $9.0 million. We financed the $171.0 million cash portion of the consideration through borrowings under our senior secured revolving credit agreement expiring August 2011.

In connection with this transaction, we entered into a 15-year crude pipelines and tankage agreement with Holly. Under the Holly CPTA, Holly agreed to transport and store volumes of crude oil on the crude pipelines and tankage facilities that at the agreed rates will result in minimum annual payments to us of $26.8 million. These minimum annual payments or revenue will be adjusted each year at a rate equal to the percentage change in the Producer Price Index (PPI) but will not decrease as a result of a decrease in the PPI. Under the agreement, the tariff rates will generally be increased annually by the percentage change in the Federal Energy Regulatory Commission (FERC) Oil Pipeline Index. The FERC index is the change in the PPI plus a FERC adjustment factor which is reviewed periodically. Additionally, Holly amended our omnibus agreement (the Omnibus Agreement) to provide $7.5 million of indemnification for a period of up to fifteen years for environmental noncompliance and remediation liabilities associated with the Crude Pipelines and Tankage Assets that occurred or existed prior to our acquisition.

The $180.0 million purchase price and $0.3 million of related transaction costs was allocated to the underlying Crude Pipelines and Tankage Assets based on values derived under both market and cost valuation approaches. Under the market approach, certain values were obtained based on an analysis of sales data for similar assets in the market, adjusted for certain factors. Under the cost approach, the replacement cost of certain assets, adjusted for factors including age and physical wear, served as the basis for value. As a result, we recorded property and equipment of $106.1 million. Additionally we recorded an intangible asset of $74.2 million representing the value of the Holly CPTA. This value was derived under an income approach based on the agreement s expected contribution to our future earnings. This intangible asset is included in Transportation agreements, net in our consolidated balance sheets.

Note 3: Properties and Equipment

	December 31,	
	2008	2007
	(In thousands)	
Pipelines and terminals	$ 308,056	$ 196,800
Land and right of way	24,991	22,825
Other	11,498	5,706
Construction in progress	38,589	9,103
	383,134	234,434
Less accumulated depreciation	92,850	75,834
	$ 290,284	$ 158,600

During the year ended December 31, 2008 we capitalized $1.0 million in interest related to major construction projects. We did not capitalize any interest prior to 2008.

Depreciation expense was $16.7 million, $11.8 million and $11.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Note 4: Transportation Agreements

Our transportation agreements consist of the following:

The Alon transportation agreement represents a portion of the total purchase price of the Alon assets that was allocated based on an estimated fair value derived under an income approach. This asset is being amortized over 30 years ending 2035, the 15-year initial term of the Alon PTA plus the expected 15-year extension period.

The Holly crude pipelines and tankage agreement represents a portion of the total purchase price of the Crude Pipelines and Tankage Assets that was allocated using a fair value based on the agreement s expected contribution to our future earnings under an income approach. This asset is being amortized over 15 years ending 2023, the 15-year term of the Holly CPTA.

The carrying amounts of the transportation agreements are as follows:

	December 31,	
	2008	2007
	(In thousands)	
Alon transportation agreement	$ 59,933	$ 59,933
Holly crude pipelines and tankage agreement	74,231	
	134,164	59,933
Less accumulated amortization	11,781	5,660
	$ 122,383	$ 54,273

We have two additional 15-year transportation agreements with Holly. One of the agreements relates to the pipelines and terminals contributed to us from Holly at the time of our initial public offering in 2004 (the Holly PTA). The second agreement relates to the Intermediate Pipelines acquired from Holly in 2005 (the Holly IPA). Our basis in the assets acquired under these transfers reflect Holly s historical cost and do not reflect a step-up in basis to fair value. Therefore, these agreements have a recorded value of zero.

Note 5: Employees, Retirement and Benefit Plans

Employees who provide direct services to us are employed by Holly Logistic Services, L.L.C. (HLS), a Holly subsidiary. Their costs, including salaries, bonuses, payroll taxes, benefits and other direct costs are charged to us monthly in accordance with the Omnibus Agreement.

These employees participate in the retirement and benefit plans of Holly. Our share of retirement and benefit plan costs for the years ended December 31, 2008, 2007 and 2006 was $2.1 million, $1.3 million and $1.4 million, respectively. These amounts include retirement costs of $1.1 million, $0.6 million and $0.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

We have adopted an incentive plan (Long-Term Incentive Plan) for employees, consultants 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.

On December 31, 2008, we had two types of equity-based compensation, which are described below. The compensation cost charged against income for these plans was $1.9 million, $1.3 million and $0.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. It is currently our policy to purchase units in the open market instead of issuing new units for settlement of restricted unit grants. At December 31, 2008, 350,000 units were authorized to be granted under the equity-based compensation plans, of which 226,268 had not yet been granted.

Restricted Units

Under our Long-Term Incentive Plan, we grant restricted units to selected employees and directors who perform services for us, with vesting generally over a period of one to five 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 vesting for certain key executives is contingent upon certain earnings per unit targets being realized.

The fair value of each unit of restricted unit awards was measured at the market price as of the date of grant and is being amortized over the vesting period, including the units issued to the key executives, as we expect those units to fully vest.

A summary of restricted unit activity and changes during the year ended December 31, 2008 is presented below:

Restricted Units	Grants	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2008 (not vested)	44,711	$ 44.77		
Granted	27,088	38.43		
Forfeited	(740)	49.74		
Vesting and transfer of full ownership to recipients	(17,554)	45.42		
Outstanding at December 31, 2008 (not vested)	53,505	$ 41.28	1.2 years	$ 1,142

There were 17,554 restricted units having a fair value of $0.4 million that were vested and transferred to recipients of our restricted unit grants during the year ended December 31, 2008. The total intrinsic value of restricted units that were vested and transferred during the year ended December 31, 2007 was $0.6 million. There were no restricted units vested or transferred prior to 2007. As of December 31, 2008, there was $0.6 million of total unrecognized compensation costs related to nonvested restricted unit grants. That cost is expected to be recognized over a weighted-average period of 1.2 years.

In 2008, we paid $0.8 million for the purchase of 21,459 of our common units in the open market for the recipients of all 2008 restricted unit grants.

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Performance Units

Under our Long-Term Incentive Plan, we grant performance units to selected executives and employees who perform services for us. These performance units are payable upon meeting the performance criteria over a service period, and generally vest over a period of three years. Our initial performance grant of 1,514 units in 2005 vested in the first quarter of 2008. Payment was based upon our unit price and upon our total unitholder return during the requisite period as compared to the total unitholder return of a selected peer group of partnerships. The amount payable under all other performance unit grants is based upon the growth in distributions per limited partner unit during the requisite period. As of December 31, 2008, estimated share payouts for outstanding nonvested performance unit awards ranged from 125% to 150%.

We granted 14,337 performance units to certain officers in March 2008. These units will vest over a three-year performance period ending December 31, 2010 and are payable in HEP common units. The number of units actually earned will be based on the growth of distributions to limited partners over the performance period, and can range from 50% to 150% of the number of performance units issued. The fair value of these performance units is based on the grant date closing unit price of $40.54 and will apply to the number of units ultimately awarded.

A summary of performance unit activity and changes during the year ended December 31, 2008 is presented below:

Performance Units	**Payable In Units**
Outstanding at January 1, 2008 (not vested)	24,148
Vesting and payment of units to recipients	(1,514)
Granted	14,337
Forfeited	
Outstanding at December 31, 2008 (not vested)	36,971

There were 1,514 performance units having a fair value of $0.1 million that were vested and transferred to recipients during the year ended December 31, 2008. There were no payments or units issued for performance units vesting during the years ended December 31, 2007 and 2006. Based on the weighted average fair value at December 31, 2008 of $42.10, there was $0.8 million of total unrecognized compensation cost related to nonvested performance units. That cost is expected to be recognized over a weighted-average period of 1.5 years.

Note 6: Debt

Credit Agreement

In February 2008, we amended our $100.0 million senior secured revolving credit agreement expiring in August 2011 to increase the size from $100.0 million to $300.0 million (the Credit Agreement), which we used to finance the $171.0 million cash portion of the consideration paid for the Crude Pipelines and Tankage Assets acquired from Holly. Union Bank of California, N.A. is one of the lenders and serves as administrative agent under this agreement. As of December 31, 2008, we had $200.0 million outstanding under the Credit Agreement.

The Credit Agreement is available to fund capital expenditures, acquisitions, and working capital and for general partnership purposes. Advances under the Credit Agreement that are either designated for working capital or have been used as interim financing to fund capital expenditures are classified as short-term liabilities. Other advances under the Credit Agreement are classified as long-term liabilities. In addition, the Credit Agreement is available to fund letters of credit up to a $50.0 million sub-limit and to fund distributions to unitholders up to a $20.0 million sub-limit. During the year ended December 31, 2008, we received net advances totaling $29.0 million under the Credit Agreement that were used as interim financing for capital expenditures.

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., our general partner, and guaranteed by our wholly-owned subsidiaries. However, any recourse to HEP Logistics Holdings, L.P. would be limited to the extent of their assets, which other than their investment in HEP, are not significant.

We may prepay all loans at any time without penalty, except for payment of certain breakage and related costs. We are required to reduce all working capital borrowings under the Credit Agreement to zero for a period of at least 15 consecutive days in each twelve-month period prior to the maturity date of the agreement. As of December 31, 2008, we did not have any working capital borrowings.

Indebtedness under the Credit Agreement bears interest, at our option, at either (a) the reference rate as announced by the administrative agent plus an applicable margin (ranging from 0.25% to 1.50%) or (b) at a rate equal to the London Interbank Offered Rate (LIBOR) plus an applicable margin (ranging from 1.00% to 2.50%). In each case, the applicable margin is based upon the ratio of our funded debt (as defined in the agreement) to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in the Credit Agreement). We incur a commitment fee on the unused portion of the Credit Agreement at a rate ranging from 0.20% to 0.50% based upon the ratio of our funded debt to EBITDA for the four most recently completed fiscal quarters. At December 31, 2008, we are subject to a 0.30% commitment fee on the $100.0 million unused portion of the Credit Agreement. The agreement expires in August 2011. At that time, the agreement will terminate and all outstanding amounts thereunder will be due and payable.

The Credit Agreement imposes certain requirements on us, 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 a merger or consolidation, or sell assets; and covenants that require maintenance of a specified EBITDA to interest expense ratio and debt to EBITDA ratio. If an event of default exists under the agreement, the lenders will be able to accelerate the maturity of the debt and exercise other rights and remedies.

Additionally, the Credit Agreement contains certain provisions whereby the lenders may accelerate payment of outstanding debt under certain circumstances.

Senior Notes Due 2015

Our Senior Notes maturing March 1, 2015 are registered with the U.S. Securities and Exchange Commission (SEC) and bear interest at 6.25% (Senior Notes). The Senior Notes are unsecured and impose certain restrictive covenants, which we are subject to and 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 Holdings, L.P., our general partner, and guaranteed by our wholly-owned subsidiaries. However, any recourse to HEP Logistics Holdings, L.P. would be limited to the extent of their assets, which other than their investment in HEP, are not significant.

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

	December 31,	
	2008	2007
	(In thousands)	
Credit Agreement	$ 200,000	$
Senior Notes Principal	185,000	185,000
Unamortized discount	(2,344)	(2,724)
Fair value hedge interest rate swap		(841)
Unamortized premium dedesignated fair value hedge	2,137	
	184,793	181,435
Total debt	384,793	181,435
Less net short-term borrowings under credit agreement	29,000	
Total long-term debt	$ 355,793	$ 181,435

Interest Rate Risk Management

As of December 31, 2008, we have three interest rate swap contracts.

We entered into an interest rate swap to hedge our exposure to the cash flow risk caused by the effects of LIBOR changes on the $171.0 million Credit Agreement advance that we used to finance our purchase of the Crude Pipelines and Tankage Assets from Holly. This interest rate swap effectively converts our $171.0 million LIBOR based debt to fixed rate debt having an interest rate of 3.74% plus an applicable margin, currently 1.75%, which equaled an effective interest rate of 5.49% as of December 31, 2008. The maturity date of this swap contract is February 28, 2013. We intend to renew our Credit Agreement prior to its expiration in August 2011 and continue to finance the $171.0 million balance until the swap matures.

We have designated this interest rate swap as a cash flow hedge. Based on our assessment of effectiveness using the change in variable cash flows method, we have determined that this interest rate swap is effective in offsetting the variability in interest payments on our $171.0 million variable rate debt resulting from changes in LIBOR. Under hedge accounting, we adjust our cash flow hedge to its fair value on a quarterly basis with a corresponding offset to accumulated other comprehensive income. 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 swap against the expected future interest payments on our $171.0 million variable rate debt. Any ineffectiveness is reclassified from accumulated other comprehensive income to interest expense. As of December 31, 2008, we had no ineffectiveness on our cash flow hedge.

We also have an interest rate swap contract that effectively converts interest expense associated with $60.0 million of our 6.25% Senior Notes from fixed to variable rate debt (Variable Rate Swap). Under this swap contract, interest on the $60.0 million notional amount is computed using the three-month LIBOR plus a spread of 1.1575%, which equaled an effective interest rate of 3.36% as of December 31, 2008. The maturity date of this swap contract is March 1, 2015, matching the maturity of the Senior Notes.

In October 2008, we entered into an additional interest rate swap contract, effective December 1, 2008, that effectively unwinds the effects of the Variable Rate Swap discussed above, converting $60.0 million of our hedged long-term debt back to fixed rate debt (Fixed Rate Swap). Under the Fixed Rate Swap, interest on a notional amount of $60.0 million is computed at a fixed rate of 3.59% versus three-month LIBOR which when added to the 1.1575% spread on the Variable Rate Swap results in an effective fixed interest rate of 4.75%. The maturity date of this swap contract is December 1, 2013.

Our interest rate swaps not having a hedge designation are measured quarterly at fair value either as an asset or a liability in our consolidated balance sheets with a corresponding entry to interest expense. For the year ended December 31, 2008, we recognized $2.3 million in interest expense attributable to fair value adjustments to our interest rate swaps.

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Prior to the execution of our Fixed Rate Swap, the Variable Rate Swap was designated as a fair value hedge of $60.0 million in outstanding principal under the Senior Notes. This hedge met the requirements to assume no ineffectiveness and was accounted for using the shortcut method of accounting whereby offsetting fair value adjustments to the underlying swap were made to the carrying value of the Senior Notes, effectively adjusting the carrying value this $60.0 million to its fair value. We dedesignated this hedge in October 2008. At this time, the carrying balance of our Senior Notes included a $2.2 million premium due to the application of hedge accounting until the dedesignation date. This premium is being amortized as a reduction to interest expense over the remaining term of the Variable Rate Swap.

We record interest expense equal to the variable rate payments under the swaps. Receipts under the swap agreements are recorded as a reduction of interest expense.

Additional information on our interest rate swaps is as follows:

Interest Rate Swaps	Balance Sheet Location	Fair Value	Location of Offsetting Balance	Offsetting Amount
			(In thousands)	
Asset				
Fixed-to-variable interest rate swap $60 million of 6.25% Senior Notes	Other assets	$ 4,079	Long-term debt	$ (2,195)
			Interest expense	(1,884)
		$ 4,079		$ (4,079)
Liability				
Cash flow hedge $171 million LIBOR based debt	Other long-term liabilities	$ (12,967)	Accumulated other comprehensive income	$ 12,967
Variable-to-fixed interest rate swap $60 million	Other long-term liabilities	(4,166)	Interest expense	4,166
		$ (17,133)		$ 17,133

Interest Expense and Other Debt Information

Interest expense consists of the following components:

	Years Ended December 31, 2008	2007	2006
	(In thousands)		
Interest on outstanding debt:			
Senior Notes, net of interest on interest rate swaps	$ 10,454	$ 11,867	$ 11,588
Credit Agreement, net of interest on interest rate swaps	8,705		
Net change in fair value of interest rate swaps	2,282		
Amortization of discount and deferred issuance costs	1,002	1,008	968
Commitment fees	327	414	500
Total interest incurred	22,770	13,289	13,056

Less capitalized interest	1,007		
Net interest expense	$ 21,763	$ 13,289	$ 13,056
Cash paid for interest [1]	$ 12,464	$ 12,316	$ 11,912

(1) Net of cash received under our interest rate swap agreements of $3.8 million for each of the years ended December 31, 2008, 2007 and 2006.

The estimated fair value of our Senior Notes was $124.0 million at December 31, 2008.

Note 7: Commitments and Contingencies

We lease certain facilities, pipelines and rights of way under operating leases, most of which contain renewal options. The right of way agreements have various termination dates through 2053.

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As of December 31, 2008, the minimum future rental commitments under operating leases having non-cancelable lease terms in excess of one year are as follows:

Year Ending December 31,	**$000 s**
2009	$ 6,364
2010	6,363
2011	6,346
2012	6,324
2013	6,321
Thereafter	22,755
Total	$ 54,473

Rental expense charged to operations was $6.6 million, $6.1 million and $5.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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 operations or cash flows.

Note 8: Significant Customers

All revenues are domestic revenues, of which over 90% are currently generated from our three largest customers: Holly, Alon and BP Plc (BP). The major concentration of our petroleum products pipeline system s revenues is derived from activities conducted in the southwest United States. The following table presents the percentage of total revenues generated by each of these three customers:

	Years Ended December 31,		
	2008	**2007**	**2006**
Holly	72%	60%	59%
Alon	16%	27%	28%
BP	8%	9%	9%

Note 9: Related Party Transactions

Holly and Alon Agreements

As of December 31, 2008, we serve Holly s refineries in New Mexico and Utah under three 15-year pipeline, terminal and tankage agreements. The substantial majority of our business is devoted to providing transportation, storage and terminalling services to Holly.

We have an agreement that relates to the pipelines and terminals contributed by Holly to us at the time of our initial public offering in 2004 and expires in 2019 (the Holly PTA). Our second agreement with Holly relates to the Intermediate Pipelines acquired from Holly in July 2005 and expires in 2020 (the Holly IPA). And third, we have the Holly CPTA that relates to the Crude Pipelines and Tankage Assets acquired from Holly and expires on February 29, 2023.

Under the Holly PTA, Holly IPA and Holly CPTA, Holly agreed to transport and store volumes of refined product and crude oil on our pipelines and terminal and tankage facilities that result in minimum annual payments to us. These minimum annual payments or revenues will be adjusted each year at a percentage change equal to the change in the PPI but will not decrease as a result of a decrease in the PPI. Under these agreements, the agreed upon tariff rates are adjusted each year on July 1 at a rate equal to the percentage change in the PPI or FERC index, but generally will not decrease as a result of a decrease in the PPI or FERC index. The FERC index is the change in the PPI plus a FERC adjustment factor which is reviewed periodically. Following our July 1, 2008 PPI rate adjustments, these agreements will result in minimum payments to us of $81.3 million for the twelve months ended June 30, 2009.

We also have a 15-year pipelines and terminals agreement with Alon (the Alon PTA), expiring in 2020, under which Alon has agreed to transport on our pipelines and throughput through our terminals volumes of refined products that results in a minimum level of annual revenue. The agreed upon tariff rates are increased or decreased annually at a rate equal to the percentage change in PPI, but not below the initial tariff rate. Following the March 1, 2008 PPI adjustment, Alon s total minimum commitment for the twelve months ending February 28, 2009 is $22.0 million.
If Holly or Alon fail to meet their 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. With the exception of the Holly CPTA, a shortfall payment may be applied as a credit in the following four quarters after minimum obligations are met.
In October 2007, we entered into an agreement with Holly that amends the Holly PTA under which we have agreed to expand our refined products pipeline system between Artesia, New Mexico and El Paso, Texas (the South System). The expansion of the South System includes replacing 85 miles of 8-inch pipe with 12-inch pipe, adding 150,000 barrels of refined product storage at our El Paso Terminal, improving existing pumps, adding a tie-in to the Kinder Morgan pipeline to Tucson and Phoenix, Arizona and making related modifications. The cost of this project is estimated to be $48.3 million. Currently, we expect to complete the majority of this project in early 2009.
Under certain provisions of the Omnibus Agreement that we entered with Holly in July 2004 and that expires in 2019, we pay Holly an annual administrative fee for the provision by Holly or its affiliates of various general and administrative services to us. Effective March 1, 2008, the annual fee was increased from $2.1 million to $2.3 million to cover additional general and administrative services attributable to the operations of our Crude Pipelines and Tankage Assets. This fee does not include the salaries of pipeline and terminal personnel or the cost of their employee benefits, which are separately charged to us by Holly. We also reimburse Holly and its affiliates for direct expenses they incur on our behalf.
In consideration for Holly s assistance in obtaining our joint venture opportunity in a new 95-mile intrastate pipeline system (the SLC Pipeline) now under construction by Plains All American Pipeline, L.P. (Plains), we will pay Holly a $2.5 million finder s fee upon the closing of our investment in the joint venture with Plains. See Note 13 for further information on this proposed joint venture.

Pipeline, terminal and tankage revenues received from Holly were $85.0 million, $61.0 million and $52.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. These amounts include revenues received under the Holly PTA, Holly IPA and Holly CPTA.

Other revenues received from Holly for the year ended December 31, 2007 were $2.7 million related to our sale of inventory of accumulated terminal overages of refined product. These overages arose from net product gains at our terminals from the beginning of 2005 through the third quarter of 2007. In the fourth quarter of 2007, we amended our pipelines and terminals agreement with Holly to provide that, on a go-forward basis, such terminal overages of refined product belong to Holly.

Holly charged general and administrative services under the Omnibus Agreement of $2.2 million for the year ended December 31, 2008 and $2.0 million for each of the years ended December 31, 2007 and 2006.

We reimbursed Holly for costs of employees supporting our operations of $13.1 million, $8.5 million and $7.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Holly reimbursed us $0.3 million and $0.2 million for certain costs paid on their behalf for the years ended December 31, 2007 and 2006, respectively.

We distributed $25.6 million, $22.8 million and $20.3 million for the years ended December 31, 2008, 2007 and 2006, respectively, to Holly as regular distributions on its subordinated units, common units and general partner interest.

Our accounts receivable from Holly was $9.4 million and $5.7 million at December 31, 2008 and 2007, respectively.

Our accounts payable to Holly were $2.2 million and $6.0 million at December 31, 2008 and 2007, respectively.

Holly failed to meet its minimum volume commitment for each of the fourteen quarters since inception of the Holly IPA. Through December 31, 2008, we have charged Holly $7.0 million for these shortfalls of which $0.5 million and zero is included in affiliate accounts receivable at December 31, 2008 and 2007, respectively.

Our revenues for the years ended December 31, 2008 and 2007 included shortfalls billed under the Holly IPA of $1.2 million in 2007 and $2.4 million in 2006, respectively, as Holly did not exceed its minimum volume commitment in any of the subsequent four quarters in 2008 and 2007. Deferred revenue in the consolidated balance sheets at December 31, 2008 and 2007, includes $2.4 million and $1.1 million, respectively, relating to the Holly IPA. It is possible that Holly may not exceed its minimum obligations under the Holly IPA to allow Holly to receive credit for any of the $2.4 million deferred at December 31, 2008.

Alon became a related party when it acquired all of our Class B subordinated units in connection with our acquisition of assets from them on February 28, 2005.

Pipeline and terminal revenues received from Alon were $11.6 million, $21.8 million and $18.0 million for the years ended December 31, 2008, 2007 and 2006, respectively, under the Alon PTA. Additionally, pipeline revenues received under a pipeline capacity lease agreement with Alon were $7.0 million, $7.1 million and $6.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

We distributed $2.8 million, $2.6 million and $2.4 million for the years ended December 31, 2008, 2007 and 2006, respectively, to Alon for distributions on its Class B subordinated units.

Included in our accounts receivable trade were $2.5 million and $3.5 million at December 31, 2008 and 2007, respectively, which represented receivable balances from Alon.

Our revenues for the year ended December 31, 2008 included $2.6 million of shortfalls billed under the Alon PTA in 2007 as Alon did not exceed its minimum revenue obligation in any of the subsequent four quarters. Deferred revenue in the consolidated balance sheets at December 31, 2008 and 2007 includes $13.3 million and $2.6 million, respectively, relating to the Alon PTA. It is possible that Alon may not exceed its minimum obligations under the Alon PTA to allow Alon to receive credit for any of the $13.3 million deferred at December 31, 2008.

BP

We have a 70% ownership interest in Rio Grande and BP owns the other 30%. Due to the ownership interest and resulting consolidation, BP is a related party to us.

BP s agreement to ship on the Rio Grande pipeline expired on March 31, 2008. Rio Grande is currently serving multiple shippers on the pipeline. We recorded revenues from BP of $9.3 million, $9.2 million and $8.4 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Rio Grande paid distributions to BP of $1.8 million, $1.3 million and $1.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Included in our accounts receivable trade at December 31, 2008 and 2007 were $2.5 million and $1.5 million, respectively, which represented the receivable balance of Rio Grande from BP.

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Note 10: Partners   Equity, Allocations and Cash Distributions

Issuances of units

As partial consideration for our purchase of the Crude Pipelines and Tankage Assets, we issued 217,497 of our common units having a fair value of $9.0 million to Holly. Also, Holly purchased an additional 2,503 of our common units for $0.1 million and HEP Logistics Holdings, L.P., our general partner, contributed $0.2 million as an additional capital contribution in order to maintain its 2% general partner interest.

Holly currently holds 7,000,000 of our subordinated units and 290,000 of our common units, which constitutes a 46% ownership interest in us, including the 2% general partner interest. The subordination period applicable to Holly s subordinated units extends until the first day of any quarter beginning after June 30, 2009 that certain tests based on our exceeding minimum quarterly distributions are met.

Under our registration statement filed with the SEC using a shelf registration process, we may offer from time to time up to $1.0 billion of our securities, through one or more prospectus supplements that would describe, among other things, the specific amounts, prices and terms of any securities offered and how the proceeds would be used. Any proceeds from the sale of securities would be used for general business purposes, which may include, among other things, funding acquisitions of assets or businesses, working capital, capital expenditures, investments in subsidiaries, the retirement of existing debt and/or the repurchase of common units or other securities.

Allocations of Net Income

Net income is allocated between limited partners and the general partner interest in accordance with the provisions of the partnership agreement. Net income allocated to the general partner includes any incentive distributions declared in the period. After the amount of incentive distributions is allocated to the general partner, the remaining net income for the period is generally allocated to the partners based on their weighted average ownership percentage during the period.

Cash Distributions

We consider regular cash distributions to unitholders on a quarterly basis, although there is no assurance as to the future cash distributions since they are dependent upon future earnings, cash flows, capital requirements, financial condition and other factors. Our Credit Agreement prohibits us from making cash distributions if any potential default or event of default, as defined in the Credit Agreement, occurs or would result from the cash distribution.

Within 45 days after the end of each quarter, we distribute all of our available cash (as defined in our partnership agreement) to unitholders of record on the applicable record date. The amount of available cash generally is all cash on hand at the end of the quarter; less the amount of cash reserves established by our general partner to provide for the proper conduct of our business, comply with applicable law, any of our debt instruments, or other agreements; or provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters; plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our revolving Credit Agreement and in all cases are used solely for working capital purposes or to pay distributions to partners.

We make distributions of available cash from operating surplus for any quarter during any subordination period in the following manner: firstly, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter; secondly, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the

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subordination period; thirdly, 98% to the subordinated unitholders, pro rata, and 2% to the general partner, until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and thereafter, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the general partner based on the percentages below.

The general partner, HEP Logistics Holdings, L.P., is entitled to incentive distributions if the amount we distribute with respect to any quarter exceeds specified target levels shown below:

	Total Quarterly Distribution	Marginal Percentage Interest in Distributions	
	Target Amount	Unitholders	General Partner
Minimum Quarterly Distribution	$ 0.50	98%	2%
First Target Distribution	Up to $0.55	98%	2%
Second Target Distribution	above $0.55 up to $0.625	85%	15%
Third Target distribution	above $0.625 up to $0.75	75%	25%
Thereafter	Above $0.75	50%	50%

The following table presents the allocation of our regular quarterly cash distributions to the general and limited partners for each period in which declared.

	2008	2007	2006
	(in thousands, except per unit data)		
General partner interest	$ 1,045	$ 915	$ 850
General partner incentive distribution	3,098	2,191	1,182
Total general partner distribution	4,143	3,106	2,032
Limited partner distribution	48,283	44,868	41,638
Total regular quarterly cash distribution	$ 52,426	$ 47,974	$ 43,670
Cash distribution per unit applicable to limited partners	$ 2.96	$ 2.785	$ 2.585

On January 27, 2009, we announced a cash distribution for the fourth quarter of 2008 of $0.765 per unit. The distribution is payable on all common, subordinated, and general partner units on February 13, 2009 to all unitholders of record on February 5, 2009. The aggregate amount of the distribution is $13.8 million, including $1.0 million to the general partner as an incentive distribution.

As a master limited partnership, we distribute our available cash, which has historically exceeded our net income because depreciation and amortization expense represents a non-cash charge against income. The result is a decline in partners equity since our regular quarterly distributions have exceeded our quarterly net income. Additionally, if the assets transferred to us upon our initial public offering in 2004 and the intermediate pipelines purchased from Holly in 2005 had been acquired from third parties, our acquisition cost in excess of Holly s basis in the transferred assets of $157.3 million would have been recorded as increases to our properties and equipment and intangible assets instead of reductions to our partners equity.

Note 11: Quarterly Financial Data (Unaudited)

Summarized quarterly financial data is as follows:

	First	Second	Third	Fourth	Total
	(In thousands, except per unit data)				
Year ended December 31, 2008					
Revenues	$27,276	$26,775	$29,511	$34,526	$118,088
Operating income	$11,950	$ 9,369	$10,998	$15,235	$ 47,552
Net income	$ 7,798	$ 3,815	$ 6,621	$ 7,133	$ 25,367
Limited partners interest in net income	$ 6,977	$ 3,015	$ 5,716	$ 6,116	$ 21,824
Net income per limited partner unit basic and diluted	$ 0.43	$ 0.18	$ 0.35	$ 0.38	$ 1.34
Distributions declared per limited partner unit	$ 0.725	$ 0.735	$ 0.745	$ 0.755	$ 2.96

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	First	Second	Third	Fourth	Total
	(In thousands, except per unit data)				
Year ended December 31, 2007					
Revenues	$23,872	$27,131	$27,213	$27,191	$105,407
Operating income	$10,796	$14,450	$14,274	$13,551	$ 53,071
Net income	$ 7,434	$11,006	$10,690	$10,141	$ 39,271
Limited partners interest in net income	$ 6,854	$10,280	$ 9,896	$ 9,309	$ 36,339
Net income per limited partner unit basic and diluted	$ 0.43	$ 0.64	$ 0.61	$ 0.58	$ 2.26
Distributions declared per limited partner unit	$ 0.675	$ 0.690	$ 0.705	$ 0.715	$ 2.785

Note 12: Supplemental Guarantor/Non-Guarantor Financial Information

Obligations of Holly Energy Partners, L.P. (Parent) under the 6.25% 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. Rio Grande (Non-Guarantor), in which we have a 70% ownership interest, is the only subsidiary that has not guaranteed these obligations.

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

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Condensed Consolidating Balance Sheet

December 31, 2008	Parent	Guarantor Subsidiaries	Non-Guarantor	Eliminations	Consolidated
			(In thousands)		
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2	$ 3,706	$ 1,561	$	$ 5,269
Accounts receivable		13,332	1,145		14,477
Intercompany accounts receivable (payable)	(197,828)	197,979	(151)		
Prepaid and other current assets	176	417			593
Total current assets	(197,650)	215,434	2,555		20,339
Properties and equipment, net		257,886	32,398		290,284
Investment in subsidiaries	378,481	23,842		(402,323)	
Transportation agreements, net		122,383			122,383
Other assets	5,300	1,382			6,682
Total assets	$ 186,131	$ 620,927	$ 34,953	$ (402,323)	$ 439,688
LIABILITIES AND PARTNERS EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	$	$ 7,357	$ 661	$	$ 8,018
Accrued interest	(27,778)	30,623			2,845
Deferred revenue		15,658			15,658
Accrued property taxes		1,015	130		1,145
Other current liabilities	31,214	(29,811)	102		1,505
Short-term borrowings under credit agreement		29,000			29,000
Total current liabilities	3,436	53,842	893		58,171
Long-term debt	184,793	171,000			355,793
Other long-term liabilities		17,604			17,604
Minority interest				10,218	10,218
Partners equity (deficit)	(2,098)	378,481	34,060	(412,541)	(2,098)
Total liabilities and partners equity (deficit)	$ 186,131	$ 620,927	$ 34,953	$ (402,323)	$ 439,688

Condensed Consolidating Balance Sheet

December 31, 2007	Parent	Guarantor Subsidiaries	Non-Guarantor	Eliminations	Consolidated

	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2	$ 8,060	$ 2,259	$	$ 10,321
Accounts receivable		10,820	1,491		12,311
Intercompany accounts receivable (payable)	(141,175)	141,553	(378)		
Prepaid and other current assets	183	363			546
Total current assets	(140,990)	160,796	3,372		23,178
Properties and equipment, net		125,383	33,217		158,600
Investment in subsidiaries	353,235	25,059		(378,294)	
Transportation agreements, net		54,273			54,273
Other assets	1,302	1,551			2,853
Total assets	$ 213,547	$ 367,062	$ 36,589	$ (378,294)	$ 238,904
LIABILITIES AND PARTNERS EQUITY					
Current liabilities:					
Accounts payable	$	$ 8,499	$ 533	$	$ 9,032
Accrued interest	(2,932)	5,928			2,996
Deferred revenue		3,700			3,700
Accrued property taxes		1,021	156		1,177
Other current liabilities	6,387	(5,661)	101		827
Total current liabilities	3,455	13,487	790		17,732
Long-term debt	181,435				181,435
Other long-term liabilities	841	340			1,181
Minority interest				10,740	10,740
Partners equity	27,816	353,235	35,799	(389,034)	27,816
Total liabilities and partners equity	$ 213,547	$ 367,062	$ 36,589	$ (378,294)	$ 238,904

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Condensed Consolidating Statement of Income

Year ended December 31, 2008	Parent	Guarantor Subsidiaries	Non-Guarantor	Eliminations	Consolidated
			(In thousands)		
Revenues:					
Affiliates	$	$ 85,040	$	$	$ 85,040
Third parties		25,077	9,266	(1,295)	33,048
		110,117	9,266	(1,295)	118,088
Operating costs and expenses:					
Operations		38,936	3,629	(1,295)	41,270
Depreciation and amortization		21,529	1,360		22,889
General and administrative	3,819	2,561	(3)		6,377
	3,819	63,026	4,986	(1,295)	70,536
Operating income (loss)	(3,819)	47,091	4,280		47,552
Equity in earnings of subsidiaries	38,215	2,983		(41,198)	
Interest income (expense)	(9,029)	(12,621)	46		(21,604)
Gain on sale of assets		1,032			1,032
Minority interest				(1,278)	(1,278)
	29,186	(8,606)	46	(42,476)	(21,850)
Income before income taxes	25,367	38,485	4,326	(42,476)	25,702
State income tax		(270)	(65)		(335)
Net income	$ 25,367	$ 38,215	$ 4,261	$ (42,476)	$ 25,367

Condensed Consolidating Statement of Income

Year ended December 31, 2007	Parent	Guarantor Subsidiaries	Non-Guarantor	Eliminations	Consolidated
			(In thousands)		
Revenues:					
Affiliates	$	$ 63,709	$	$	$ 63,709
Third parties		33,720	9,217	(1,239)	41,698
		97,429	9,217	(1,239)	105,407
Operating costs and expenses:					
Operations		30,523	3,627	(1,239)	32,911
Depreciation and amortization		12,520	1,862		14,382
General and administrative	2,730	2,135	178		5,043

	2,730	45,178	5,667	(1,239)	52,336
Operating income (loss)	(2,730)	52,251	3,550		53,071
Equity in earnings of subsidiaries	54,362	2,487		(56,849)	
Interest income (expense)	(12,361)	(474)	79		(12,756)
Gain on sale of assets		298			298
Minority interest				(1,067)	(1,067)
	42,001	2,311	79	(57,916)	(13,525)
Income before income taxes	39,271	54,562	3,629	(57,916)	39,546
State income tax		(200)	(75)		(275)
Net income	$ 39,271	$ 54,362	$ 3,554	$ (57,916)	$ 39,271

Condensed Consolidating Statement of Income

Year ended December 31, 2006	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor**	**Eliminations**	**Consolidated**
			(In thousands)		
Revenues:					
Affiliates	$	$ 52,878	$	$	$ 52,878
Third parties		29,119	8,400	(1,203)	36,316
		81,997	8,400	(1,203)	89,194
Operating costs and expenses:					
Operations		27,009	2,824	(1,203)	28,630
Depreciation and amortization		11,933	3,397		15,330
General and administrative	2,794	2,055	5		4,854
	2,794	40,997	6,226	(1,203)	48,814
Operating income (loss)	(2,794)	41,000	2,174		40,380
Equity in earnings of subsidiaries	42,456	1,588		(44,044)	
Interest expense	(12,119)	(132)	94		(12,157)
Minority interest				(680)	(680)
Net income	$ 27,543	$ 42,456	$ 2,268	$ (44,724)	$ 27,543

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Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2008	Parent	Guarantor Subsidiaries	Non-Guarantor	Eliminations	Consolidated
			(In thousands)		
Cash flows from operating activities	$ 44,035	$ 17,973	$ 5,843	$ (4,200)	$ 63,651
Cash flows from investing activities					
Additions to properties and equipment		(41,762)	(541)		(42,303)
Acquisition of crude pipelines and tankage assets		(171,000)			(171,000)
Proceeds from sale of assets		36			36
		(212,726)	(541)		(213,267)
Cash flows from financing activities					
Net borrowings under credit agreement	9,000	191,000			200,000
Proceeds from issuance of common units		104			104
Contribution from general partner	186				186
Distributions to partners	(52,426)		(6,000)	6,000	(52,426)
Cash distributions to minority interest				(1,800)	(1,800)
Purchase of units for restricted unit grants	(795)				(795)
Deferred financing costs		(705)			(705)
	(44,035)	190,399	(6,000)	4,200	144,564
Cash and cash equivalents					
Decrease for the year		(4,354)	(698)		(5,052)
Beginning of year	2	8,060	2,259		10,321
End of year	$ 2	$ 3,706	$ 1,561	$	$ 5,269

Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2007	Parent	Guarantor Subsidiaries	Non-Guarantor	Eliminations	Consolidated
			(In thousands)		
Cash flows from operating activities	$ 49,056	$ 6,784	$ 6,226	$ (3,010)	$ 59,056
Cash flows from investing activities					
		(8,556)	(1,401)		(9,957)

	Parent	Guarantor Subsidiaries	Non-Guarantor	Eliminations	Consolidated
Additions to properties and equipment					
Proceeds from sale of assets		325			325
		(8,231)	(1,401)		(9,632)
Cash flows from financing activities					
Distributions to partners	(47,974)		(4,300)	4,300	(47,974)
Cash distributions to minority interest				(1,290)	(1,290)
Purchase of units for restricted unit grants	(1,082)				(1,082)
Deferred financing costs		(296)			(296)
Other		(16)			(16)
	(49,056)	(312)	(4,300)	3,010	(50,658)
Cash and cash equivalents					
Increase (decrease) for the year		(1,759)	525		(1,234)
Beginning of year	2	9,819	1,734		11,555
End of year	$ 2	$ 8,060	$ 2,259	$	$ 10,321

Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2006	Parent	Guarantor Subsidiaries	Non-Guarantor	Eliminations	Consolidated
			(In thousands)		
Cash flows from operating activities	$ 44,304	$ 930	$ 4,049	$ (3,430)	$ 45,853
Cash flows from investing activities additions to properties and equipment		(8,881)	(226)		(9,107)
Cash flows from financing activities					
Distributions to partners	(43,670)		(4,900)	4,900	(43,670)
Cash distributions to minority interest				(1,470)	(1,470)
Purchase of units for restricted unit grants	(634)				(634)
	(44,304)		(4,900)	3,430	(45,774)
Cash and cash equivalents					
Decrease for the year		(7,951)	(1,077)		(9,028)
Beginning of year	2	17,770	2,811		20,583
End of year	$ 2	$ 9,819	$ 1,734	$	$ 11,555

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Note 13: Proposed Joint Venture

In November 2007, we executed a definitive agreement with Plains to acquire a 25% joint venture interest in a new 95-mile intrastate pipeline system now under construction by Plains for the shipment of up to 120,000 bpd of crude oil into the Salt Lake City area. Under the agreement, the SLC Pipeline will be owned by a joint venture company that will be owned 75% by Plains and 25% by us. We expect to purchase our 25% interest in the joint venture in March 2009 when the SLC Pipeline is expected to become fully operational. The SLC Pipeline will allow various refiners in the Salt Lake City area, including Holly s Woods Cross Refinery, to ship crude oil into the Salt Lake City area from the Utah terminus of the Frontier Pipeline as well as crude oil from Wyoming and Utah that is currently flowing on Plains Rocky Mountain Pipeline. The total cost of our investment in the SLC Pipeline is expected to be $28.0 million, including the $2.5 million finder s fee that is payable to Holly upon the closing of our investment in the SLC Pipeline.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

We have had no change in, or disagreement with, our independent registered public accounting firm on matters involving accounting and financial disclosure.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Our principal executive officer and principal financial officer have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the principal executive officer and principal financial officer concluded that the design and operation of our disclosure controls and procedures are effective in ensuring that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

(b) Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our last fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

See Item 8 for Management s Report on its Assessment of the Company s Internal Control Over Financial Reporting and Report of the Registered Public Accounting Firm.

Item 9B. Other Information

There have been no events that occurred in the fourth quarter of 2008 that would need to be reported on Form 8-K that have not been previously reported.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Holly Logistic Services, L.L.C., as the general partner of HEP Logistics Holdings, L.P., our general partner, manages our operations and activities on our behalf. Our general partner is not elected by our unitholders. Unitholders are not entitled to elect the directors of HLS or directly or indirectly participate in our management or operation. The sole member of HLS, which is a subsidiary of Holly, elects our directors to serve until their death, resignation or removal. Our general partner owes a fiduciary duty to our unitholders. Our general partner is liable, as general partner, for all of our debts (to the extent not paid from our assets), except for indebtedness or other obligations that are made specifically non-recourse to it. Whenever possible, our general partner intends to incur indebtedness or other obligations that are non-recourse.

Three members of the board of directors of HLS serve on a conflicts committee to review specific matters that the board believes may involve conflicts of interest. The conflicts committee determines if the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers or employees of HLS or directors, officers, or employees of its affiliates, and must meet the independence and experience standards established by the New York Stock Exchange and the Exchange Act to serve on the audit committee of a board of directors. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our general partner of any duties it may owe us or our unitholders. In addition, we have an audit committee of three independent directors that reviews our external financial reporting, selects our independent registered public accounting firm, and reviews procedures for internal auditing and the adequacy of our internal accounting controls. We also have a compensation committee consisting of the three independent directors, which oversees compensation decisions for certain officers of HLS whose time is fully committed to us and a portion of the long-term incentive compensation of other officers who only devote part of their time to the matters of HEP and who receive long-term incentive compensation with respect to their services. The compensation committee also oversees the compensation plans described below. In addition, we have an executive committee of the board consisting of one independent director and two directors employed by Holly.

The board of directors of HLS has determined that Messrs. Darling, Pinkerton and Stengel meet the applicable criteria for independence under the currently applicable rules of the New York Stock Exchange and under the Exchange Act. These directors serve as the only members of our audit, conflicts and compensation committees.

Mr. Darling has been selected to preside at regularly scheduled meetings of non-management directors. Persons wishing to communicate with the non-management directors are invited to email the Presiding Director at presiding.director@hollyenergypartners.com or write to: Charles M. Darling, IV, Presiding Director, c/o Secretary, Holly Logistic Services, L.L.C., 100 Crescent Court, Suite 1600, Dallas, Texas 75201-6915.

The board of directors of HLS held twelve meetings during 2008, with the audit committee, conflicts committee and compensation committee holding seven, seven and ten meetings, respectively. During 2008, each director attended at least 75% of the total number of meetings of the board. With the exception of two directors who each was absent from one board meeting, all board members attended each board meeting in 2008. All committee members attended each committee meeting for the committees on which they serve.

We are managed and operated by the directors and officers of HLS on behalf of our general partner. Most of our operational personnel are employees of HLS.

Mr. Clifton spends approximately 25% of his time overseeing the management of our business and affairs.

Messrs. Blair and Cunningham spend all of their time in the management of our business. The rest of our officers devote approximately one-quarter of their time to us. Our non-management directors

devote as much time as is necessary to prepare for and attend board of directors and committee meetings.
The following table shows information for the current directors and executive officers of HLS.

Name	Age	Position with HLS
Matthew P. Clifton	57	Chairman of the Board and Chief Executive Officer[1]
David G. Blair	50	Senior Vice President
Bruce R. Shaw	41	Senior Vice President and Chief Financial Officer
Mark T. Cunningham	49	Vice President, Operations
Denise C. McWatters	49	Vice President, General Counsel and Secretary
P. Dean Ridenour	67	Director
Charles M. Darling, IV	60	Director[2 3 4]
William J. Gray	68	Director
Jerry W. Pinkerton	68	Director[1 2 3 4]
William P. Stengel	60	Director[1 2 3 4]

1 Member of the Executive Committee

2 Member of the Conflicts Committee

3 Member of the Audit Committee

4 Member of the Compensation Committee

Matthew P. Clifton was elected Chairman of our Board, and Chief Executive Officer in March 2004. He has been employed by Holly for over twenty years. Mr. Clifton served as Holly s Vice President of Economics, Engineering and Legal Affairs from 1988 to 1991, Senior Vice President of Holly from 1991 to 1995, President of Navajo Pipeline Company, a wholly owned subsidiary of Holly, since its inception in 1981, President of Holly from 1995 to 2005 and has served as Chief Executive Officer of Holly since January 1, 2006. Mr. Clifton has also served as a director of Holly since 1995.

David G. Blair was elected Senior Vice President in January 2007. He has been employed by Holly for over 27 years. Mr. Blair served as Holly s Vice President responsible for Holly Asphalt Company from February 2005 to December 2006. Mr. Blair was General Manager of the NK Asphalt Partnership between Koch Materials Company and Navajo Refining Company from July 2000 to February 2005. Mr. Blair was named Vice President, Marketing, Asphalt & Specialty Products in October 1994. Mr. Blair served in various positions within Holly in crude oil supply, wholesale product marketing, and supply and trading from 1981 to 1991.

Bruce R. Shaw was elected to the position of Senior Vice President, Chief Financial Officer in January 2008. Mr. Shaw served on our Board of Directors from April 2007 to April 2008 and as Vice President, Special Projects for Holly from September 2007 to December 2007. Prior to September 2007, Mr. Shaw briefly left Holly in June 2007 and served as President of Standard Supply and Distributing Company, Inc. and Bartos Industries, Ltd., two companies that are affiliated with each other in the heating, ventilation, and air conditioning industry. Mr. Shaw previously served Holly in various positions including Vice President of Corporate Development from February 2006 to May 2007, Vice President of Crude Purchasing and Corporate Development from February 2005 to February 2006,

Vice President of Corporate Development from March 2004 to February 2005, Vice President of Marketing and Corporate Development from November 2003 to March 2004, Vice President of Corporate Development from October 2001 to November 2003 and Director of Corporate Development from June 1997 to January 2000. Mr. Shaw also served as Vice President, Corporate Development for HLS from August 2004 to January 2007.

Mark T. Cunningham was elected Vice President of Operations in July of 2007. He has served Holly as Senior Manager of Special Projects from December 2006 through June 2007 and as Senior Manager of Integrity Management and EH&S from July 2004 through December 2006. Prior to joining Holly, Mr. Cunningham served Diamond Shamrock / Ultramar Diamond Shamrock for 20 years in several engineering and pipeline operations capacities. He began his time with Diamond Shamrock in 1983 and

served various positions including Senior Design Engineer, Superintendent of Special Projects, Regional Manager and General Manager of Operations and Director of Operations through April 2003.

Denise C. McWatters was promoted to Vice President, General Counsel and Secretary of Holly Logistic Services, LLC and Holly Corporation effective May 12, 2008. She joined Holly in October 2007 as Deputy General Counsel with more than 20 years of legal experience. Ms. McWatters served as the General Counsel of The Beck Group from May 2005 through October 2007. Prior to joining Beck, Ms. McWatters was a shareholder in the predecessor to Locke Lord Bissell & Liddell LLP, served as Counsel in the legal department at Citigroup, N.A. and was a shareholder in Cox Smith Matthews Incorporated.

P. Dean Ridenour was elected to our Board of Directors in August 2004 and served as Vice President and Chief Accounting Officer from January 2005 to January 2008. Mr. Ridenour served as Vice President, Special Projects of Holly Corporation from August 2004 to December 2004 and prior to becoming a full-time employee, provided full-time consulting services to Holly Corporation beginning in October 2002. From April 2001 until October 2002, Mr. Ridenour was temporarily retired. From July 1999 through April 2001, Mr. Ridenour served as Chief Financial Officer and director of GeoUtilities, Inc., an internet-based superstore for energy, telecom and other utility services, which was purchased by AES Corporation in March 2000. Mr. Ridenour was employed for 34 years by Ernst & Young LLP, including 20 years as an audit partner, retiring in 1997. Mr. Ridenour is no longer an officer of HEP.

Charles M. Darling, IV was elected to our Board of Directors in July 2004. Mr. Darling has served as President of DQ Holdings, L.L.C., a venture capital investment and consulting firm focused primarily on opportunities in the energy industry, since August 1998. From 1997 to 1998, Mr. Darling was the President and General Counsel, and was a Director from 1993 to 1998, of DeepTech International, which was acquired by El Paso Energy Corp. in August 1998. Mr. Darling was also a Director at Leviathan Gas Pipeline Company from 1993 through 1998. Prior to joining DeepTech in 1997, Mr. Darling practiced law at the law firm of Baker Botts, L.L.P., for over 20 years.

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

Jerry W. Pinkerton was elected to our Board of Directors in July 2004. Since December 2003, Mr. Pinkerton has been retired. From December 2000 to December 2003, Mr. Pinkerton served as a consultant to TXU Corp and from August 1997 to December 2000, Mr. Pinkerton served as Controller of TXU and its U.S. subsidiaries. From August 1988 until its merger with TXU in August 1997, Mr. Pinkerton served as the Vice President and Chief Accounting Officer of ENSERCH Corporation. Prior to joining ENSERCH, Mr. Pinkerton was employed for 26 years as an auditor by Deloitte Haskins & Sells, a predecessor firm of Deloitte & Touche, LLP, including 15 years as an audit partner. Mr. Pinkerton also sits on the board of directors of Animal Health International, Inc. where he serves as chairman of its audit committee.

William P. Stengel was elected to our Board of Directors in July 2004. Mr. Stengel has been retired since May 2003. From 1997 to May 2003, Mr. Stengel served as Managing Director of the global energy and mining group at Citigroup/Citibank, N.A. From 1973 to 1997, Mr. Stengel served in various other capacities with Citigroup/Citibank, N.A.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and persons who beneficially own more than 10% of HEP s units to file certain reports with the SEC and New York Stock Exchange concerning their beneficial ownership of HEP s equity securities. Based on a review of these reports, other information available to us and written representations from reporting persons indicating that no other reports were required, all such reports concerning beneficial ownership were filed

in a timely manner by reporting persons during the year ended December 31, 2008, except for two Form 4 s filed on January 9, 2008. These Form 4 s related to sales of HEP common units held by David G. Blair and Stephen J. McDonnell to satisfy tax withholding obligations with respect to the vesting of certain restricted units on January 1, 2008.

Audit Committee

HLS s audit committee is composed of three directors who are not officers or employees of HEP or any of its subsidiaries or Holly Corporation or any of its subsidiaries. The board of directors of HLS has adopted a written charter for the audit committee. The board of directors of HLS has determined that a member of the audit committee, namely Jerry W. Pinkerton, is an audit committee financial expert (as defined by the SEC) and has designated Mr. Pinkerton as the audit committee financial expert. As indicated above, the board of directors of HLS has determined that Mr. Pinkerton meets the applicable criteria for independence under the currently applicable rules of the New York Stock Exchange and under the Exchange Act.

The audit committee selects our independent registered public accounting firm and reviews the professional services they provide. It reviews the scope of the audit performed by the independent registered public accounting firm, the audit report issued by the independent auditor, HEP s annual and quarterly financial statements, any material comments contained in the auditor s letters to management, HEP s internal accounting controls and such other matters relating to accounting, auditing and financial reporting as it deems appropriate. In addition, the audit committee reviews the type and extent of any non-audit work to be performed by the independent registered public accounting firm and its compatibility with their continued objectivity and independence.

Report of the Audit Committee for the Year Ended December 31, 2008

Management of Holly Logistic Services, L.L.C. is responsible for Holly Energy Partners, L.P. s internal controls and the financial reporting process. The audit committee selected Ernst & Young LLP, Independent Registered Public Accounting Firm, to audit the books, records and accounts of the Partnership for the year ended December 31, 2008. Ernst & Young LLP is responsible for performing an independent audit of Holly Energy Partners, L.P. s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and to issue a report thereon as well as to issue a report on the effectiveness of Holly Energy Partners, L.P. s internal control over financial reporting. The audit committee monitors and oversees these processes.

The audit committee has reviewed and discussed Holly Energy Partners, L.P. s audited consolidated financial statements with management and Ernst & Young LLP. The audit committee has discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor s Communication With Those Charged With Governance.* The audit committee has received the written disclosures and the letter from Ernst & Young LLP pursuant to Rule 3526 of the Public Company Accounting Oversight Board, *Communication With Audit Committees Governing Independence,* and has discussed with Ernst & Young LLP that firm s independence.

The board of directors of our general partner, upon recommendation by the audit committee, has adopted an audit committee charter, which is available on our website at www.hollyenergy.com. The charter requires the audit committee to approve in advance all audit and non-audit services to be provided by our independent registered public accounting firm. All fees for audit, audit-related and tax services as well as all other fees presented under Item 14 Principal Accountant Fees and Services were approved by the audit committee in accordance with the charter.

Based on the foregoing review and discussions and such other matters the audit committee deemed relevant and appropriate, the audit committee recommended to the board of directors that the audited consolidated financial statements of Holly Energy Partners, L.P. be included in Holly Energy Partners, L.P. s Annual Report on Form 10-K for the year ended December 31, 2008.

Members of the Audit Committee:
Jerry W. Pinkerton, Chairman
Charles M. Darling, IV
William P. Stengel

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Code of Ethics

HEP has adopted a Code of Business Conduct and Ethics that applies to all officers, directors and employees, including the company s principal executive officer, principal financial officer, and principal accounting officer. Available on our website at www.hollyenergy.com are copies of our Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, and Code of Business Conduct and Ethics, all of which also will be provided in print without charge upon written request to the Vice President, Investor Relations at: Holly Energy Partners, L.P., 100 Crescent Court, Suite 1600, Dallas, TX, 75201-6915. The Partnership intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of its Code of Business Conduct and Ethics with respect to its principal financial officers by posting such information on this website.

New York Stock Exchange Certification

In 2008, Mr. Clifton, as the Company s Chief Executive Officer, provided to the New York Stock Exchange the annual CEO certification regarding the Company s compliance with the New York Stock Exchange s corporate governance listing standards.

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Item 11. Executive Compensation

DIRECTOR COMPENSATION

Members of the Board of Directors of HLS who also serve as officers or employees of HLS or Holly do not receive additional compensation in their capacity as directors. The only officers of HLS or Holly who also served as directors during 2008 were Messrs. Clifton, Shaw and Ridenour. Mr. Shaw was a director until April, 2008. Mr. Gray was elected to replace Mr. Shaw as a member of the HLS Board of Directors on April 15, 2008. Mr. Ridenour was an employee of Holly during 2008 until March 31, 2008 when he retired but continued to provide limited services to Holly under a consulting agreement. Mr. Ridenour is no longer an employee and he no longer serves as an officer of HLS.

In 2008, the compensation for non-employee directors of HLS was: (a) a $50,000 annual cash retainer, payable in four quarterly installments; (b) $1,500 for attendance at each in-person meeting of the Board of Directors or a Board committee, a $1,000 meeting fee for attendance at each telephonic meeting of the Board of Directors or a Board committee that lasts more than thirty minutes, and a fee of $1,500 per day for each day that a non-employee director attends a strategy meeting with the HLS management; (c) an annual grant under the Holly Energy Partners, L.P. Long-Term Incentive Plan (Long-Term Incentive Plan) of restricted HEP units equal in value to $50,000 on the date of grant, with 100% vesting one year after the date of grant. The Long-Term Incentive Plan grants are effective on the date they are approved by the Board of Directors and this date varies each year. A restricted HEP unit is a common unit subject to forfeiture until the award vests. Each director receiving restricted HEP units is a unitholder with respect to all of the restricted HEP units and has the right to receive all distributions paid with respect to such units. In addition, the directors who serve as chairpersons of the committees of the Board of Directors each receive an annual retainer of $10,000, payable in four quarterly installments. On July 25, 2008, the Board of Directors approved the payment of a cash meeting fee to non-employee directors for attending any meetings of a committee of the Board of Directors of which the non-employee director is not a member, when such committee meeting attendance is at the request of the chairman of the committee, with the amount of such meeting fee being the same as the meeting fee payable to non-employee directors who are committee members in attendance at the same meeting. Directors are reimbursed for out-of-pocket expenses in connection with attending board or committee meetings. Each director is fully indemnified by HLS for actions associated with being a director to the extent permitted under Delaware law.

During the calendar year ending December 31, 2008, compensation was made to directors of HLS as set forth below:

	Fees Earned or Paid in Cash[1]	Stock Awards[2]	Total
Charles M. Darling, IV	$ 101,000	$57,711	$158,711
William Gray [3]	$ 40,000	$26,101	$ 66,101
Jerry W. Pinkerton	$ 101,000	$57,711	$158,711
P. Dean Ridenour [4]	$ 47,500	$27,838(2)	$ 75,338
Bruce R. Shaw [5]	0	$29,063	$ 29,063
William P. Stengel	$ 101,000	$57,711	$158,711

(1) The number in the chart reflects total 2008 cash compensation. An insignificant portion of this amount was paid in January, 2009, due to a delay in

processing payment for certain December meeting fees.

(2) Reflects the amount recognized in the year ended December 31, 2008 in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), Share Based payments, and includes amounts for awards granted prior to 2008. Messrs. Stengel, Pinkerton and Darling each received an award of 1,466 restricted HEP units on August 1, 2008 with a grant date fair value of $50,000. Mr. Gray received an award of 1,833 restricted HEP units on August 1, 2008 with a grant date fair value of $62,500. Mr. Ridenour received an award of 1,955 restricted HEP units on August 1, 2008

with a grant date fair value of $66,667. The equity awards to Mr. Gray and Mr. Ridenour include additional compensation ($12,500 and $16,667, respectively) for service as outside directors during the period that commenced

after the award of restricted units to directors on August 1, 2007 but prior to the award of restricted units to directors on August 1, 2008. The restricted HEP units granted on August 1, 2008 will vest on August 1, 2009. The fair market value of each restricted unit grant is measured on the grant date and is amortized over the vesting period. As of December 31, 2008, Messrs. Darling, Pinkerton and Stengel each held 1,466 unvested restricted units, Mr. Gray held 1,833 unvested restricted units and Mr. Ridenour held 1,955 unvested restricted units.

(3) In addition to the $40,000 of director fees reflected in this table, Mr. Gray received cash compensation for consulting services

provided by Mr. Gray to Holly Corporation during 2008. None of the consulting fees were paid by HEP.

(4) The director compensation described for P. Dean Ridenour is also included in the Summary Compensation Table since Mr. Ridenour was one of our officers through January 7, 2008.

(5) This represents 2008 amounts accrued for the 2007 restricted HEP units awarded to Mr. Shaw while he was an outside director. Mr. Shaw was not paid for services as a director in 2008 since he was also an officer.

COMPENSATION DISCUSSION AND ANALYSIS

This compensation discussion and analysis (CD&A) provides information about our compensation objectives and policies for the HLS officers that also act as our principal executive officer, our principal financial officer and our other most highly compensated executive officers and is intended to place in perspective the information contained in the executive compensation tables that follow this discussion. We provide a general description of our compensation program and specific information about its various components. Additionally, we describe our policies relating to reimbursement to Holly for compensation expenses. We also provide information about HLS executive officer changes that became effective in January 2008, where applicable. Immediately following this CD&A is our Compensation Committee Report (the Committee Report).

Overview

HEP is managed by HLS, the general partner of HEP s general partner. HLS is a subsidiary of Holly. The employees providing services to HEP are employed by HLS; HEP itself has no employees. As of December 31, 2008, HLS had 121 employees that provide general, administrative and operational services to HEP. Throughout this discussion, the

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

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

Stephen J. McDonnell, HLS s Vice President and Chief Financial Officer until January 7, 2008 and Assistant to the Chairman from January 7, 2008 through and including January 1, 2009 when he retired;

Bruce R. Shaw, Senior Vice President and Chief Financial Officer effective January 7, 2008;

P. Dean Ridenour, HLS s Vice President and Chief Accounting Officer until January 7, 2008. Mr. Ridenour continued to serve as a Holly employee until his retirement on March 31, 2008 and no longer served as an officer of HLS. He continues to provide limited services to Holly pursuant to a consulting agreement and is a member of the Board of Directors of HLS, but he is no longer an HLS or Holly employee.

David G. Blair, HLS s Senior Vice President; and

Mark T. Cunningham, HLS s Vice President, Operations.

Of the six Named Executive Officers of HEP, only Messrs. Blair and Cunningham are current employees of HLS. Under the terms of the Omnibus Agreement, the annual administrative fee we pay to Holly increased to $2,300,000 as of March 1, 2008 and is for the provision of general and administrative services for our benefit, which may be increased as permitted under the Omnibus Agreement. Additionally, we reimburse Holly for expenses incurred on our behalf. The administrative services covered by the Omnibus Agreement include, without limitation, the costs of corporate services provided to HEP by Holly such as accounting, information technology, human resources and in-house legal support; office space, furnishings and equipment; and transportation of HEP executive officers and employees on Holly airplanes for business purposes. The partnership agreement provides that our general partner will determine the expenses that are allocable to HEP. See Item 13, Certain Relationships and Related Transactions of this Form 10-K Annual Report for additional discussion of our relationships and transactions with Holly. None of the services covered by the administrative fee are assigned any particular value individually. Although certain Named Executive Officers provide services to both Holly and HEP, no portion of the administrative fee is specifically allocated to services provided by the Named Executive Officers to HEP; rather, the administrative fee generally covers services provided to HEP by Holly and HLS employees and, except as described below, there is no reimbursement by HEP of cash compensation expenses paid by Holly or HLS to the Named Executive Officers. With respect to equity compensation paid by HEP to the Named Executive Officers, HLS purchases the units, and HEP reimburses HLS for the purchase price.

With respect to Messrs. Blair and Cunningham, we reimbursed Holly for 100% of the compensation expenses incurred by Holly for salary, bonus, retirement and other benefits for 2008 for Messrs. Blair and Cunningham. We reimbursed HLS for 100% of the expenses incurred in providing Messrs. Blair and Cunningham with long-term equity incentive compensation. All compensation paid to them is fully disclosed in the tabular disclosure following this CD&A.

Messrs. Clifton, McDonnell, Shaw and Ridenour were compensated by HLS for the services they perform for HLS through awards of equity-based compensation granted pursuant to the Long-Term Incentive Plan. None of the cash compensation paid to or other benefits made available to Messrs. Clifton, McDonnell, Shaw and Ridenour by Holly was allocated to the services they provide to HLS and, therefore, only the Long-Term Incentive Plan awards granted to them are disclosed herein. In 2008, Mr. Ridenour did not receive HEP equity awards for employee service but did receive equity awards for service as a director.

Objectives of Compensation Program

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

The HLS Compensation Committee (the Committee), comprised entirely of independent directors, administers the Long-Term Incentive Plan for certain HLS employees and reviewed and confirmed in February 2008 the recommendations of the Holly Compensation Committee with regard to the total compensation of Messrs. Clifton, McDonnell and Shaw. The Committee determined and approved the long-term equity incentive compensation to be paid to the Named Executive Officers and the compensation in addition to the long-term equity incentive compensation to be paid to Mr. Blair.

As to Mr. Blair, the Committee has not adopted any formal policies for allocating compensation among salaries, bonuses and long-term equity incentive compensation. The Committee attempts to balance the use of both cash and equity compensation in the total compensation package provided to Mr. Blair and as to our other Named Executive Officers, attempts to utilize long-term equity incentive compensation to build value to both HEP and its unitholders. The Committee considers recommendations by management and many other factors in deciding on the final compensation factors for which it has responsibility for each Named Executive Officer. The Committee does not review or approve pension benefits for Named Executive Officers and all are provided the same pension benefits that are provided to Holly employees.

Mr. Cunningham s position is a grade that does not require Committee approval of cash compensation, so his compensation package is reviewed and approved by management instead of the Committee. Mr. Cunningham s compensation is established by Messrs. Clifton and Blair with the assistance of the Vice President of Human Resources based upon all of the same factors used by the Committee and described below. The Committee was provided with an overview of Mr. Cunningham s compensation with opportunity to request changes to the compensation and the Committee completed its review and agreed with management s recommendations.

In February 2008, the Committee, with the assistance of management, sought to designate an appropriate mix of cash and long-term equity incentive compensation for Messrs. Blair and Cunningham with a goal to provide sufficient current compensation to retain them, while at the same time providing incentives to maximize long-term value for HEP and its unit holders. The Committee, with the assistance of management, annually performs an internal review of each of the Named Executive Officers long-term incentive compensation to determine whether the executives are being provided with equity awards that are effective in motivating the Named Executive Officers to create long-term value for HEP. The Committee also compares the Named Executive Officers compensation to that of similarly situated executives in other comparable businesses. These long-term equity incentives are designed to retain the executives during the period of time during which their performance is expected to impact our business and reward them in accordance with the success of those long-term goals and policies.

Role of the Committee, Compensation Consultant and Named Executive Officers in the Compensation Setting Process

As part of its consideration, the Committee reviewed and discussed market data and recommendations provided by an established, independent consulting firm specializing in executive compensation issues. As in 2007, the Committee retained Frederick W. Cook & Associates, an independent consultant (Consultant) to provide relevant market data to assist them in making competitive compensation decisions for the 2008 year.

Market pay levels are one of many factors we consider in setting compensation for the Named Executive Officers and we regularly review comparison data provided by our Consultant to compare our compensation program with market information in regard to salary and annual incentive levels, long-term incentive award levels, and short- and long-term incentive practices. The purpose of this analysis is to provide a frame of reference in evaluating the reasonableness and competitiveness of compensation with the energy industry, and to ensure that our compensation is generally comparable to companies of similar size and scope of operations.

Our Consultant obtains market pay levels from various sources including published compensation surveys and information taken from the SEC filings for two groups of publicly traded organizations, as compiled by our Consultant, that we and our Consultant consider appropriate peer organizations. One benchmark group includes a number of publicly traded master limited partnerships (MLPs) that included in 2008: Kinder Morgan Energy Partners, L.P., Enbridge Energy Partners, L.P., TEPPCO Partners, L.P., NuStar Energy L.P. (formerly Valero L.P.), Magellan Midstream Partners, L.P., Buckeye Energy Partners, L.P., Sunoco Logistics Partners L.P., Inergy L.P., Crosstex Energy, LP, TC Pipelines, LP, MarkWest Energy Partners, L.P., Atlas Pipeline Partners, L.P. and Hiland Partners, LP. Information for a broader group of energy companies, including Holly, is also reviewed in developing our salary and incentive structures as well as in the development of long-term equity incentive award guidelines.

Our objective is to position pay at levels approximating the middle range of market practice. As noted, however, market pay levels are only one factor considered, with pay decisions ultimately reflecting a discretionary evaluation of individual contribution and value to HEP.

The Consultant does not have approval authority for the ultimate compensation that is provided to employees. Instead, the Consultant provides recommendations to management by identifying areas that do not appear to be consistent with the general practice of our peers (without setting specific benchmarks and using a discretionary standard). The Consultant provides recommendations regarding compensation

to management and to the Committee prior to the late first quarter meetings when salaries are approved, bonuses are awarded and equity compensation is established for the upcoming year.

Except with respect to his own compensation, the Committee solicited the recommendations of our Chairman of the Board and Chief Executive Officer, which the Committee considers in making its determinations of Mr. Blair s compensation and in reviewing Mr. Cunningham s compensation. The Committee also reviewed the total compensation provided in the previous year in determining compensation to be paid in 2008 and established compensation for 2008 that was consistent with the compensation paid in 2007 after considering overall performance and the other specific factors discussed in this CD&A.

Various members of management facilitate the Committee s consideration of compensation for Named Executive Officers by providing data for the Committee s review. This data includes, but is not limited to, HEP s annual budget as approved by HLS s Board of Directors, Holly s financial performance over the course of the year versus that of its peers, Holly s pre-tax net income, performance evaluations of Named Executive Officers, compensation provided to the Named Executive Officers in previous years, tax-related considerations and accounting-related considerations. Management provides the Committee with guidance as to how such data impacts pre-determined performance goals set by the Committee during the previous year. When management considers a discretionary bonus to be appropriate for a Named Executive Officer, it will suggest an amount and provide the Committee with management s rationale for such bonus. Given the day-to-day familiarity that management has with the work performed by the Named Executive Officers, the Committee values management s recommendations. However, the Committee makes the final decision as to the compensation as described in this CD&A. For 2008 and after consideration of management s recommendations regarding the bonuses, and discussion regarding any discretionary increases in the bonuses, the Committee approved discretionary increases in some bonuses as shown in footnote 1 to the Summary Compensation Table.

Overview of 2008 Executive Compensation Components

For Messrs. Blair and Cunningham, the components of compensation in 2008 were:

- base salary;
- annual performance-based cash incentive compensation;
- long-term equity incentive compensation; and
- retirement and other benefits.

In 2008, the only component of compensation we provided for the other Named Executive Officers was long-term equity incentive compensation. Because Messrs. Clifton, McDonnell, Shaw and Ridenour were committing less than half of their business time to HEP, during which time they were primarily involved in determining the long-term business goals and policies of HEP, the Committee believed that it was appropriate to compensate them only through long-term equity incentives. All Named Executive Officers receiving equity awards received HEP restricted units with the exception of Mr. Clifton, who only received an award of HEP performance units, and Mr. Blair, who received an award of both HEP restricted units and HEP performance units. The nature of each of these types of awards is more fully described below.

Base Salary

The base salary for Mr. Blair was changed from $260,004 to $269,100 on March 1, 2008. The base salary for Mr. Cunningham was changed from $159,408 to $175,378 on March 1, 2008. The Committee approved these two salaries based on their positions and levels of responsibility, individual performance, HLS s salary range for executives at their respective levels and market practices. The Committee also reviewed competitive market data provided by the Consultant relevant to the two positions.

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Annual Incentive Cash Bonus Compensation

The Holly Logistic Services Annual Incentive Plan (the Annual Incentive Plan) was adopted by the HLS Board of Directors in August 2004 with the objective of motivating management and the employees of HLS and its affiliates who perform services for HLS and HEP to collectively produce outstanding results, encourage superior performance, increase productivity, contribute to the health and safety goals of the Company and aid in attracting and retaining key employees. The Committee oversees the administration of the Annual Incentive Plan, and any potential awards granted pursuant to it are subject to final determination by the Committee that the performance goals for the applicable periods have been achieved.

These performance criteria can include both HEP and Holly factors, given the scope of responsibilities of our Named Executive Officers. The total bonus pool for all executives and employees of HLS is determined typically by the Committee after the end of each year or designated performance period, calculated pursuant to the achievement of the objective pre-established performance criteria described above. Awards for a given year are paid in cash in the first quarter of the following year.

Payment with respect to any cash bonus is contingent upon the satisfaction of the following pre-established 2008 performance criteria, all of which are evaluated by management and incorporated into the recommendations made to the Committee. The percentage of each criteria that makes up the total incentive bonus paid to Messrs. Blair and Cunningham is described below in the narrative in the section titled 2008 Grants of Plan-Based Awards.

A portion of the bonus is equal to a pre-established percentage of the employee s base salary and is earned only if Holly achieves its 2008 pre-tax net income (PTNI) goal of $351,239,529. This component is subject to being adjusted to a minimum amount of 0% and a maximum amount of two times the employee s pre-established percentage. If the PTNI goal is met, the Committee uses discretion in determining the percentage paid. Subject to the requirement that the PTNI goal is met, the adjustment of up to two times the employee s pre-established percentage may vary from year to year in the Committee s discretion.

A portion of the bonus is equal to a pre-established percentage of the employee s base salary, and is earned only if Holly s performance for the year outperforms that of its peers. This component is subject to being adjusted to a minimum amount of 0% and a maximum amount of two times the employee s pre-established percentage. If the goal is met, the Committee uses discretion in determining the percentage paid. Subject to the requirement that this goal is met, the adjustment of up to two times the employee s pre-established percentage may vary from year to year in the Committee s discretion.

A portion of the bonus is equal to a pre-established percentage of the employee s base salary, based on the performance of the employee s business unit versus the unit s budgeted goal for 2008. This component is subject to being adjusted to a minimum amount of 0% and a maximum amount of two times the employee s pre-established percentage and may vary from year to year in the Committee s discretion.

A portion of the bonus equal to a pre-established percentage of the employee s base salary, based on the employee s individual performance over the year. This component is subject to being adjusted to a minimum amount of 0% and a maximum amount of two times the employee s pre-established percentage. The employee s individual performance for 2008 is evaluated through an annual performance review completed in February 2009. The review includes a written assessment provided by the employee s immediate supervisor. The assessment reviews how well the employee displays each of the following competencies:

Individual Performance
Integrity
Interpersonal Effectiveness

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Each one of these performance dimensions has a variety of sub-categories that are separately reviewed. The assessment also evaluates how well the employee performed their individual goals for 2008.
The 2009 performance goals have not yet been established. The Committee does not believe that the 2009 goals are material in understanding the 2008 compensation.
In addition to the pre-defined performance criteria, the Committee has discretion to approve an increase or a decrease in a Named Executive Officer s bonus. Increases and decreases are determined using the same factors that are used to establish bonuses, and poor results on the indicated factors could, in the discretion of the Committee, result in a decrease in a bonus. The Committee also considers whether conditions outside the control of the executives affected the factors. In cases where the performance objectives described above are achieved, yet the Committee believes additional compensation is warranted to reward an executive for outstanding performance, the Committee may award additional bonuses in its discretion. In making the determination as to whether such discretion should be applied (either to decrease a bonus or award additional bonuses), the Committee reviews recommendations from management. For 2008, as in 2007, the Committee approved a discretionary increase in two bonuses as shown in footnote 1 to the Summary Compensation Table. All bonuses will be paid in March 2009.
The Committee also utilized the analysis of the Consultant to determine how the compensation of Messrs. Blair and Cunningham, including bonus payments, compared to our peers and a market average. The annual incentive targets were assessed on the basis of total cash, including base salary and annual incentive payments. The Committee believes this analysis verifies that total cash compensation to Messrs. Blair and Cunningham is appropriate for the level of responsibility that each of these officers hold as well as in comparison to compensation levels of comparable executives at our peer organizations.
The target and actual annual incentive cash bonus compensation awarded (and subsequently earned and payable) is described in the narrative to the section titled 2008 Grants of Plan-Based Awards .

Long-Term Incentive Equity Compensation

The Long-Term Incentive Plan was adopted by the HLS Board of Directors in August 2004 with the objective of promoting the interests of HEP by providing to management, employees and consultants of HLS and its affiliates who perform services for HLS and HEP and its subsidiaries incentive compensation awards that are based on units of HEP. The Long-Term Incentive Plan is also contemplated to enhance our ability to attract and retain the services of individuals who are essential for the growth and profitability of HEP, to encourage them to devote their best efforts to advancing our business strategically, and to align their interests with those of our unit holders. The Long-Term Incentive Plan is reviewed and approved by the Committee annually.
The Long-Term Incentive Plan contemplates four potential types of awards: restricted units, performance units, unit options and unit appreciation rights. Since the inception of HEP, we have awarded only restricted units and performance unit awards.
With respect to the Named Executive Officers, in determining the appropriate amount and type of long-term equity incentive awards to be made, the Committee considers the amount of time devoted by each executive to our business, the executive s position and scope of responsibility, base salary and available compensation information for executives in comparable positions in similar companies. The awards are granted annually during the first quarter of the year, typically in February.
Our goal is to reward the creation of value and high performance with variable compensation dependent on that performance, thus the peer data we have accumulated for use in determining other areas of compensation is used subjectively (and not as an objective factor) to confirm that our executives are paid consistently with comparable executives of other similar companies. The peer data allows the Committee to verify that the compensation paid to executives is appropriate. The total compensation may be adjusted if the Committee observes a material variation from the market data, but no specific formula is used to benchmark this data.

Restricted Units

A restricted unit is a common unit subject to forfeiture upon termination of employment prior to the vesting of the award. The Committee may approve grants on the terms that it determines, including the period during which the award will vest. Under the Long-Term Incentive Plan, the Committee may condition vesting upon the achievement of specified financial objectives. The restricted units will vest upon a change of control of HEP, our general partner, HLS or Holly, unless provided otherwise by the Committee. Restricted unit holders have all the rights of a unitholder with respect to such restricted units, including the right to receive all distributions paid with respect to such restricted units and any right to vote with respect to the restricted units, subject to limitations on transfer and disposition of the units during the restricted period.

In 2008, the Named Executive Officers who were granted awards of restricted units were Messrs. McDonnell, Blair, Cunningham and Shaw. All of the restricted units granted in 2008 vest in thirds over three annual periods and will be fully vested and nonforfeitable after December 31, 2010, as described in greater detail in the narrative in the section titled 2008 Grants of Plan-Based Awards.

Performance Units

A performance unit is a notational phantom unit that entitles the grantee to receive a common unit upon the vesting of the unit or, as may be provided in the applicable agreement between the grantee and HLS, the cash equivalent to the value of a common unit. The grants made during the 2008 year are governed by award agreements that provide solely for payments in units. Performance units will only be settled upon the attainment of pre-established performance targets. The Committee may approve grants on such terms as the Committee shall determine. The Committee approves the period over which performance units will vest, and the Committee may base its determination upon the achievement of specified financial objectives. As with restricted units, performance units will vest upon a change of control of HEP, our general partner, HLS or Holly, unless provided otherwise by the Committee. Performance units are also subject to forfeiture in the event that the executive s employment or service relationship terminates for any reason, unless and to the extent that the Committee provides otherwise.

In 2008, the only Named Executive Officers who received an award of performance units were Messrs. Clifton and Blair. Performance units were awarded to Messrs. Clifton and Blair given their responsibilities to HEP with respect to long-term strategy. The performance period for such award is from January 1, 2008 through December 31, 2010. Messrs. Clifton and Blair may earn no less than 50% and no more than 150% of the performance units subject to their awards over the course of the performance period as described more fully in the narrative in the section below titled 2008 Grant of Plan-Based Awards. The performance units currently outstanding may be settled only in common units of HEP.

Acquisition of Common Units for Long-Term Incentive Equity Awards

Common units to be delivered in connection with the grant of performance unit awards may be common units acquired by HLS on the open market, common units already owned by HLS, common units acquired by HLS directly from us or any other person or any combination of the foregoing. We do not currently hold treasury units. HLS is entitled to reimbursement by us for the cost of acquiring the common units.

Tax and Accounting Implications

We account for the equity compensation expense for our employees and executive officers, including our Named Executive Officers, under the rules of SFAS 123(R), which requires us to estimate and record an expense for each award of equity compensation over the vesting period of the award. Accounting rules also require us to record cash compensation as an expense at the time the obligation is accrued. Because we are a partnership, Section 162(m) of the Code does not apply to compensation paid to our named executive officers and accordingly, the Committee did not consider its impact in determining compensation levels for the 2008 year. The Committee has taken into account the tax implications to the partnership in its decision to grant long-term incentive compensation awards of restricted and performance units as opposed to options or unit appreciation rights.

Retirement and Benefit Plans

The cost of retirement and welfare benefits for employees of HLS are charged monthly to us by Holly in accordance with the terms of the Omnibus Agreement. These employees participate in Holly s Retirement Plan (a tax qualified defined benefit plan) and Holly s Thrift Plan (a tax qualified defined contribution plan). Holly s Retirement Plan is described below in the narrative accompanying the Pension Benefits Table.

The Thrift Plan is offered to all employees of HLS. Employees may, at their election, contribute to the Thrift Plan amounts from 0% up to a maximum of 50% of their eligible compensation. In 2006, employees had the option to participate in both the Retirement Plan and the Thrift Plan. Effective January 1, 2007, the Retirement Plan was frozen for new employees not covered by collective bargaining agreements with labor unions, and these new employees were required to participate in the new Automatic Thrift Plan Contribution feature under the Thrift Plan (the amounts attributable to employer contributions are shown in the Summary Compensation Table below). To the extent an employee was hired prior to January 1, 2007, and elected to begin receiving the Automatic Thrift Plan Contribution under the Thrift Plan, their participation in future benefits under the Retirement Plan was frozen. The Automatic Thrift Plan Contribution is up to 5% of eligible compensation subject to applicable IRS limits and it is paid in addition to employee deferrals and employer matching contributions under the Thrift Plan.

In 2008, for employees not covered by collective bargaining agreements with labor unions, Holly matched employee contributions to the Thrift Plan up to 6% of their cash compensation. Employee contributions that were made on a tax-deferred basis were generally limited to $15,500 per year with employees 50 years of age or over able to make additional tax-deferred contributions of $5,000. Prior to 2007, Holly s contributions in the Thrift Plan did not vest until the earlier of three years of credited service or termination of employment due to retirement, disability or death. On and after January 1, 2007, company matching contributions for employees not covered by collective bargaining agreements with labor unions are immediately vested with no waiting period. Automatic Thrift Plan Contributions are still subject to a three year cliff vesting period.

Neither of Messrs. Blair or Cunningham elected to receive the Automatic Thrift Plan Contribution under the Thrift Plan and all remained in the Holly Retirement Plan that is discussed below in the section titled Pension Benefits Table. Messrs. Blair and Cunningham are the only Named Executive Officers whose Retirement Plan and Thrift Plan benefits are charged to us by Holly.

Change-in-Control Agreements

Holly has entered into Change-In-Control Agreements with Messrs. Blair and Cunningham. The material terms of, and the quantification of, the potential amounts payable under the Change-in-Control Agreements are described below in the section titled Potential Payments upon Termination or Change-in-Control. Holly provides these agreements to Messrs. Blair and Cunningham to provide for management continuity in the event of a change of control, and to assist in the recruitment and retention of executives. Neither we nor HLS has entered into any employment agreements or severance agreements with any of the Named Executive Officers, other than the change-in-control agreements described below.

Compensation Committee Report

The Compensation Committee of the Holly Logistic Services, L.L.C. Board of Directors has reviewed and discussed this Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, the Compensation Committee recommended to the Board that this Compensation Discussion and Analysis be included in this Form 10-K.

Members of the Compensation Committee:
Charles M. Darling, IV, Chairman
Jerry W. Pinkerton
William P. Stengel

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Summary Compensation Table

The table below summarizes the total compensation paid or earned by each of the Named Executive Officers in 2008. As previously noted, the cash compensation and benefits for Named Executive Officers other than Messrs. Blair and Cunningham were not paid by us, but rather by Holly, and were not allocated to the services those Named Executive Officers performed for us in 2008. Information regarding the compensation paid to Messrs. Clifton, McDonnell, Shaw and Ridenour as consideration for the services they perform for Holly will be reported in Holly s annual proxy statement.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards (2)	Option Awards	Non-Equity Incentive Plan Compensation (3)	Change in Pension Value(4)	All Other Compensation (5)	Total
Matthew P. Clifton,	2008	n/a	n/a	$569,912	n/a	n/a	n/a	n/a	$569,912
Chairman of the	2007	n/a	n/a	$386,086	n/a	n/a	n/a	n/a	$386,086
Board and Chief Executive Officer	2006	n/a	n/a	$286,522	n/a	n/a	n/a	n/a	$286,522
Stephen J.	2008	n/a	n/a	$ 82,096	n/a	n/a	n/a	n/a	$ 82,096
McDonnell, Vice	2007	n/a	n/a	$ 75,219	n/a	n/a	n/a	n/a	$ 75,219
President and Chief Financial Officer	2006	n/a	n/a	$ 35,086	n/a	n/a	n/a	n/a	$ 35,086
P. Dean Ridenour,	2008	n/a	n/a	$109,776(6)	n/a	n/a	n/a	$47,500(7)	$157,276
Vice President and	2007	n/a	n/a	$184,240	n/a	n/a	n/a	n/a	$184,240
Chief Accounting Officer	2006	n/a	n/a	$135,406	n/a	n/a	n/a	n/a	$135,406
Bruce R. Shaw,	2008	n/a	n/a	$138,851(8)	n/a	n/a	n/a	n/a	$138,851
Senior Vice	2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
President and Chief Financial Officer	2006	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
David G. Blair,	2008	$269,100(9)	$ 40,500	$262,456	n/a	$ 94,500	$63,876	$13,800	$744,232
Senior Vice President	2007	$260,004	$117,000	$133,904	n/a	$208,000	$26,177	$13,500	$758,585
Mark T. Cunningham,	2008	$175,378(10)	$ 23,345	$ 54,348	n/a	$ 41,655	$16,195	$ 9,891	$320,812
Vice President Operations	2007	$147,148(10)	$ 71,000	$ 28,539	n/a	$ 72,000	$10,194	$ 8,793	$337,674

(1) This reflects the discretionary bonus that is in excess of the amount payable pursuant to our annual non-equity incentive plan.

(2) Amounts listed represent the amount of

expense recognized for financial reporting purposes in 2006, 2007 and 2008 for restricted unit and performance unit awards in accordance with SFAS No. 123(R) and includes amounts from awards granted prior to 2008. Following SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. See Note 5 to our consolidated financial statements for a discussion of the assumptions used in determining the SFAS 123(R) compensation cost of these awards. The amount for Mr. Clifton and Mr. Blair is based on an estimated payment of 125% of the performance units except for the 2007

performance units for which an estimated payment of 150% of the performance units was used. No forfeitures of equity awards to the Named Executive Officers occurred in 2008. Upon the cessation of Mr. Shaw s service on the Board of Directors, he forfeited one-half of a 959 restricted unit award (479 restricted units

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forfeited) granted to him on August 1, 2007. One-half of this restricted unit award (480 restricted units) vested prior to Mr. Shaw s cessation of service on the Board of Directors. Vesting of the 479 restricted units that were forfeited would have occurred on May 1, 2008 (240 restricted units) and August 1, 2008 (239 restricted units) had Mr. Shaw s service on the Board of Directors continued to those dates. As a result of this forfeiture of restricted units, we deducted $24,975 from the compensation cost recognized in fiscal 2008 for Mr. Shaw s restricted unit awards.

(3) See the narrative to the section titled 2008 Grant of Plan-Based Awards for further information on the performance targets used to determine the amounts attributable to amounts earned in 2008 under our Annual Incentive Plan.

(4) The amounts reflect the following assumptions:

	December 31, 2006	December 31, 2007	December 31, 2008
Discount Rate:	6.00%	6.40%	6.50%
Mortality Table:	RP2000 White Collar Projected to 2020	RP2000 White Collar Projected to 2020	RP2000 White Collar Projected to 2020
Reserving Table:	(50% Male/ 50% Female)	(50% Male/ 50% Female)	(50% Male/ 50% Female)
Retirement Age:	the later of current age or age 62	the later of current age or age 62	the later of current age or age 62

(5) This reflects matching contributions made to the Thrift Plan by HLS, which were reimbursed by HEP. Since all Named Executive Officers elected to remain in the Holly Retirement Plan, the only

contributions are employer matching of employee contributions, subject to the limits described in the section Retirement and Benefit Plans.

(6) This reflects awards Mr. Ridenour received as a director and an officer as follows: $27,838 for 2008 restricted HEP units (director compensation) and $81,938 for 2005, 2006 and 2007 restricted HEP units (officer compensation).

(7) This reflects payments made to Mr. Ridenour as retainers and meeting fees for serving as an outside director from April 1, 2008 through December 31, 2008.

(8) This reflects awards Mr. Shaw received as a director and an officer as follows: $29,063 for 2008 restricted HEP units (director compensation) and $109,788 for 2008 restricted

HEP units (officer compensation).

(9) Mr. Blair s annual salary was $260,004 effective January 1, 2008 and $269,100 effective March 1, 2008. His annual base salary is reported in the table, but his actual payroll payments are $255,509 due to our new bi-weekly payroll system (the 12-15-08 through 12-31-08 payroll payment was made on January 6, 2009).

(10) Mr. Cunningham s annual salary was $132,636 effective January 1, 2007, $138,612 effective March 1, 2007, $159,408 effective July 15, 2007 and $175,378 effective March 1, 2008. His annual base salary is reported in the table, but his actual payroll payments are $164,846.86 due to our new bi-weekly payroll system (the 12-15-08 through

12-31-08 payroll
payment was
made on
January 6, 2009).

2008 Grants of Plan-Based Awards

The amounts reflected in the table below represent three elements of compensation that we awarded to our Named Executive Officers during 2008: performance units and restricted units granted pursuant to our Long-Term Incentive Plan, and cash bonuses awarded pursuant to our Annual Incentive Plan.

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		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[2]				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) Maximum	(i) All other Equity	(k) Grant Date
Name	Grant Date	Threshold	Target	Maximum	Threshold	Target	(#)	Awards[3]	Fair Value[4]
Matthew P. Clifton									
Performance Units	3/7/08				5,261	10,522	15,783		$427,509
Stephen J. McDonnell									
Restricted Units	3/7/08							1,908	$ 77,522
P. Dean Ridenour [5]									
Bruce R. Shaw									
Restricted Units	3/7/08							1,908	$ 77,522
Restricted Units	4/24/08							3,000	$117,240
David G. Blair									
Performance Units	3/7/08				1,908	3,815	5,723		$155,003
Restricted Units	3/7/08							3,815	$155,003
Cash Incentives			135,000	270,000					
Mark T. Cunningham									
Restricted Units	3/7/08							1,846	$ 75,003
Cash Incentives			52,613	105,227					

(1) The amounts in columns (d) and (e) reflect the target and maximum bonus award amounts for Mr. Blair and Mr. Cunningham with respect to cash bonuses awarded pursuant to our Annual Incentive Plan in 2008 based on the percentages set forth below in the

section titled Annual Incentive Cash Bonus Compensation. The maximum reflects that the employee may receive up to 200% of the target bonus award amount.

(2) The amounts in columns (f), (g) and (h) represent the threshold, target and maximum payment levels with respect to grants of performance units in 2008. The Committee approved a grant of 10,522 performance units to Mr. Clifton and 3,815 performance units to Mr. Blair, the vesting schedules of which are described in the narrative below.

(3) The Committee approved a grant of 3,815 restricted units to Mr. Blair, 1,846 restricted units to Mr. Cunningham, 1908 restricted units to Mr. McDonnell and 4,908 restricted units to Mr. Shaw (1,908 on March 7, 2008 and 3,000 on

April 24, 2008), the vesting schedules of which are described in the narrative below. The Committee awarded the April restricted HEP units to Mr. Shaw to replace restricted HEP units previously awarded him by the HLS Board of Directors that Mr. Shaw forfeited both as a result of his resignation from Holly Corporation in May, 2007, and his resignation as a director from the HLS Board of Directors in April, 2008.

(4) This reflects the price of $40.63, the closing price at the close of business on March 6, 2008, the day immediately preceding the date of grant and, for Mr. Shaw, the price of $39.08, the closing price at the close of business on April 23, 2008, the day immediately prior to his April 24, 2008 grant. The value of performance units was calculated

using the $40.63 price and using the Target payout level and reflects the grant date fair value for purposes of SFAS 123(R). The assumptions used in calculating the assumed payout of performance units is discussed in footnote 2 to the Summary Compensation Table.

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(5) In 2008, Mr. Ridenour did not receive any awards that are required to be reported in this chart. Refer to the Director Compensation table for awards received by Mr. Ridenour in 2008 in his capacity as a member of the HLS Board of Directors.

The 2008 awards of performance units and restricted units were issued under our Long-Term Incentive Plan. The material terms of these awards are described below:

2008 Performance Units

Under the terms of the performance units granted to Messrs. Clifton and Blair in 2008, each employee may earn from 50% to 150% of the performance units, based on the total increase in our cash distributions on our common units. The performance period for the awards began on January 1, 2008 and ends on December 31, 2010. Following the completion of the performance period, Messrs. Clifton and Blair shall be entitled to a payment of a number of common units equal to the result of multiplying their respective original grant amounts by the performance percentage set forth below:

*3-Year Total Increase in Cash Distributions Per Common Unit above $8.70***	*Performance Percentage (%) to be Multiplied by Performance Units*
$0.00	*50%*
$0.308	*75%*
$0.623	*100%*
$0.946	*125%*
$1.276 or more	*150%*

** $8.70 represents a 3-year cumulative distribution of $2.90 per annum, $2.90 being the distribution rate in effect at the start of the performance period.

In order to receive 75% of the units subject to this award, the cash distributions per unit declared and paid in the three years ended December 31, 2010 must total $9.01 per unit. In order to receive 100%, the distributions per unit declared

and paid for the three years ended December 31, 2010 must total $9.32 per unit. In order to receive 125%, the distributions per unit declared and paid for the three years ended December 31, 2010 must total $9.65 per unit. In order to receive 150%, the distributions per unit declared and paid in the three years ended December 31, 2010 must total $9.98 per unit. The percentages are interpolated between points.

In the event that the employment of either Mr. Clifton or Mr. Blair terminates prior to January 1, 2011, other than due to a defined change-in-control event, involuntary termination, death, disability or retirement, the employee will forfeit his award. In the event of the involuntary termination, death or total and permanent disability of either Mr. Clifton or Mr. Blair, as determined by the Committee in its sole discretion, or upon either of the employee s retirement after attaining age 62 or an earlier retirement age approved by the Committee in its sole discretion, the applicable employee shall forfeit a number of units equal to the percentage that the number of full months following the date of involuntary separation, death, disability or retirement to the end of the performance period bears to 36. Any remaining units that are not vested will become vested based upon the performance actually achieved by us as of the end of the specified performance period. In its sole discretion, the Committee may make a payment assuming a performance percentage of up to 150% instead of the prorated number. As shown in the table above, the amount shown in column (f) reflects the minimum payment amount of 50%, the amount shown in column (g) reflects the target amount of 100% and the amount shown in column (h) reflects the maximum payment level of 150%.

The termination and change-in-control provisions of this award are described below under the section titled Potential Payments upon Termination or Change-in-Control. Additional information regarding the performance unit awards can be found above under Compensation Discussion and Analysis Long-Term Incentive Equity Compensation Performance Units.

2008 Restricted Units

Under the terms of the restricted units granted in 2008, except in the case of early termination, the restricted units become vested in accordance with the following schedule:

Vesting Date	*Cumulative Amount of Restricted Units Vested*
After December 31, 2008	1/3
After December 31, 2009	2/3
After December 31, 2010	All

Other than due to a defined change-in-control event, death, disability or retirement, if an employee s employment is terminated prior to one of the vesting dates specified above, all unvested restricted units will be forfeited. In the event of the employee s death, total and permanent disability as determined by the Committee in its sole discretion, or upon either of the employee s retirement after attaining age 62 or an earlier retirement age approved by the Committee in its sole discretion, the employee shall forfeit a number of units equal to (i) the total number of units initially subject to the award times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2010 bears to 36. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Each listed employee is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units. The termination and change-in-control provisions of this award are described below in the section titled Potential Payments upon Termination or Change-in-Control.

Annual Incentive Cash Bonus Compensation

The cash bonuses that are available to our Named Executive Officers under the Annual Incentive Plan are based upon pre-set percentages of salary, achieved by reaching certain performance levels. A description of the pre-established performance criteria utilized in 2008 can be found above in the CD&A under the section titled Annual Incentive Cash Bonus Compensation. The following chart reflects the target percentages that were set for Messrs. Blair and Cunningham for 2008 (Messrs. Clifton, McDonnell, Shaw and Ridenour do not receive cash bonuses under our Annual Incentive Plan) and the actual percentages awarded to each individual. Potential maximum payments under the Annual Incentive Plan for each of the following criteria are 200% of the target percentages set forth in the following table:

Name and Principal Position	% based on Holly PTNI	% based upon Holly Peer Performance	Business Unit Performance	Individual Performance	Total Possible Incentive Compensation (1)
David G. Blair, Senior Vice President	10% Actual: 0%	10% Actual: 15%	20% Actual: 0%	10% Actual: 20%	50% Actual: 35%
Mark T. Cunningham, Vice President	2.5% Actual: 0%	2.5% Actual: 3.75%	15% Actual: 0%	10% Actual: 20%	30% Actual: 23.75%

(1) Pursuant to our Annual Incentive Plan, the percentages in the first four columns for each individual are added together and then multiplied

by the base salary for each individual. The target and maximum awards are reflected above in the chart in the 2008 Grants of Plan Based Awards section. Neither of the listed employees received the maximum awards; however, the Committee exercised discretion to award additional cash compensation to these individuals as shown in the Bonus column of the Summary Compensation Table.

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Outstanding Equity Awards at Fiscal Year End

The following table sets forth, for each of our Named Executive Officers, information regarding restricted and performance units that were held as of December 31, 2008, including awards that were granted prior to 2008:

	Equity Awards[1][2]			
Name	**Number of Units That Have Not Vested**	**Market Value of Units That Have Not Vested**	**Equity Incentive Plan Awards: Number of Unearned Units, Units or Other Rights That Have Not Vested**[3]	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Units, Units or Other Rights That Have Not Vested**
Matthew P. Clifton	n/a	n/a	49,346[4]	$ 1,053,537
Stephen J. McDonnell	4,017	$ 85,763	n/a	n/a
Bruce R. Shaw	4,908	$ 104,786	n/a	n/a
P. Dean Ridenour [5]	4,734	$ 101,071	n/a	n/a
David G. Blair	5,848	$ 124,855	10,296	$ 219,820
Mark T. Cunningham	2,492	$ 53,204	n/a	n/a

(1) The values are based upon the closing market price of $21.35 on December 31, 2008.

(2) All awards are more particularly described in the text that immediately follows this chart.

(3) Unless otherwise specified for purposes of this disclosure only, all performance units have been calculated assuming the

maximum 150% threshold is reached.

(4) These 49,346 units include (a) 7,802 unvested restricted units which will vest at 100% only after a performance standard is achieved and (b) 27,696 performance units which were multiplied by 1.5 because these performance units are subject to a maximum threshold of 150%.

(5) Mr. Ridenour was no longer the Vice President and Chief Accounting Officer of HLS as of January 7, 2008. Mr. Ridenour continued to serve as an employee of Holly until March 31, 2008. Beginning April 1, 2008, Mr. Ridenour continued to provide services to Holly and its subsidiaries on a reduced basis as a non-employee

consultant under a two-year consulting contract. The Committee has determined that, solely for purposes of Mr. Ridenour s outstanding restricted unit awards, Mr. Ridenour s work as a consultant under the consulting agreement will be treated as continuing employment with HLS, and Mr. Ridenour s non-vested restricted units were not forfeited because of the change from employee to consultant status.

The following chart sets forth by grant date the number of restricted and performance units awarded to our Named Executive Officers that remained outstanding as of December 31, 2008 and that are reflected in the immediately preceding chart:

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Name	2005 Restricted Units (1)	2005 Performance Units (2)	2006 Restricted (3)	2006 Performance Units (4)	2007 Restricted Units (5)	2007 Performance Units (6)	2008 Restricted Units (7)	2008 Performance Units (8)
Matthew P. Clifton	0	7,802	0	8,438	0	8,736	0	10,522
Stephen J. McDonnell (9)	337	0	416	0	1,356	0	1,908	0
Bruce R. Shaw	0	0	0	0	0	0	4,908	0
P. Dean Ridenour	564	0	1,459	0	2,711	0	0	0
David G. Blair	0	0	0	0	2,033	3,049	3,815	3,815
Mark T. Cunningham	139	0	141	0	366	0	1,846	0

(1) Under the terms of the February 2005 restricted unit grants, except in the case of early termination, the restricted units become vested in accordance with the following schedule:

Vesting Date	*Cumulative Amount of Restricted Units Vested*
After December 31, 2007	1/3
After December 31, 2008	2/3
After December 31, 2009	All

Other than due to a defined change-in-control event, death, disability or retirement, if an employee s employment is terminated prior to one of the vesting dates specified above, all unvested restricted units will be forfeited. In the event of the employee s death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or an earlier retirement age approved by the Committee in its sole discretion, the employee shall forfeit a number of units equal to (i) the total number of units initially subject to the award times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2009 bears to 60. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. The employee is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units. The termination and change-in-control provisions of this award are described below in the section titled Potential Payments upon Termination or Change-in-Control.

(2) Mr. Clifton received an award of 7,802 restricted HEP units with a performance

standard in February 2005. Except in the case of early termination, after December 31, 2007, the performance units become vested in accordance with the following schedule:

Vesting Trigger: Attainment of Quarterly Adjusted Net Income Per Diluted Unit of at Least $0.56	*Cumulative Amount of Performance Units Vested*
For any quarter between October 1, 2007 and December 31, 2010	1/3
For any quarter between October 1, 2008 and December 31, 2010	2/3
For any quarter between October 1, 2009 and December 31, 2010	All

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All units may vest as late as December 31, 2010, but the indicated number of units may vest sooner if the required adjusted net income per diluted unit is obtained sooner. None of the units have vested as of the date hereof. In addition, other than due to a defined change-in-control event, involuntary termination, death, disability or retirement, if Mr. Clifton s employment is terminated prior to one of the vesting dates , all then unvested units will be forfeited.

In the event of Mr. Clifton s involuntary termination, death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or an earlier retirement age approved by the Committee in its sole discretion, Mr. Clifton shall forfeit a number of units equal to (i) the total number of units initially subject to the award

times (ii) the percentage that the period of full months beginning on the first calendar month following the date of involuntary termination, death, disability or retirement and ending on December 31, 2009 bears to 60. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Mr. Clifton is a unitholder with respect to all of the units and has the right to receive all distributions paid with respect to such units. The termination and change-in-control provisions of this award are described below in the section titled Potential Payments upon Termination or Change-in-Control.

(3) Under the terms of the February 2006 restricted unit grants, except in the case of early termination, the restricted units become vested in accordance with the following schedule:

Vesting Date	*Cumulative Amount of Restricted Units Vested*
January 1, 2007	1/3
January 1, 2008	2/3
January 1, 2009	All

Other than due to a defined change-in-control event, death, disability or retirement, if an employee s employment is terminated prior to one of the vesting dates specified above, all unvested restricted units will be forfeited. In the event of the employee s death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or an earlier retirement age approved by the Committee in its sole discretion, the employee shall forfeit a number of units equal to (i) the total number of units initially subject to the award times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2008 bears to 36. Any remaining units that

are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. The employee is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units. The termination and change-in-control provisions of this award are described below in the section titled Potential Payments upon Termination or Change-in-Control.

(4) Mr. Clifton received an award of 8,438 performance units in February 2006. Under the terms of the grant, Mr. Clifton could earn from 50% to 150% of the performance units, based on the total increase in our cash distributions on our common units. The performance period for the award began on January 1, 2006 and ended on December 31, 2008. Following the completion of the performance period, Mr. Clifton is

entitled to payment of a number of common units equal to the result of multiplying the original grant amount of 8,438 by the performance percentage which has been determined to be 128% based upon interpolation between the following points:

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3-Year Total Increase in Cash Distributions Per Common Unit above $7.50 (beginning with base of $2.50)	*Performance Percentage (%) to be Multiplied by Performance Units*
$0.00 or less	*50%*
$0.62	*100%*
$1.27 or more	*150%*

(5) Under the terms of the February 2007 restricted unit grants, except in the case of early termination, the restricted units become vested in accordance with the following schedule:

Vesting Date	*Cumulative Amount of Restricted Units Vested*
After December 31, 2007	1/3
After December 31, 2008	2/3
After December 31, 2009	All

Other than due to a defined change-in-control event, death, disability or retirement, if an employee s employment is terminated prior to one of the vesting dates specified above, all unvested restricted units will be forfeited. In the event of the employee s death, total and permanent disability as determined by the Committee in its sole discretion, or upon either of the employee s retirement after

attaining age 62 or an earlier retirement age approved by the Committee in its sole discretion, the employee shall forfeit a number of units equal to (i) the total number of units initially subject to the award times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2009 bears to 36. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Each listed employee is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units. The termination and change-in-control provisions of this award are described below under the section titled Potential Payments upon Termination or Change-in-Control.

(6) Mr. Clifton and Mr. Blair received awards of 8,736 and 3,049 performance units, respectively, in February 2007. Under the terms of the grant, the employees may earn from 50% to 150% of the performance units, based on the total increase in our cash distributions on our common units. The performance period for the award began on January 1, 2007 and ends on December 31, 2009. Following the completion of the performance period, the employees shall be entitled to payment of a number of common units equal to the result of multiplying the original grant amounts by the performance percentage set forth below:

*3-Year Total Increase in Cash Distributions Per Common Unit above $8.10***	*Performance Percentage (%) to be Multiplied by Performance Units*
$0.00 or less	*50%*
$0.328	*75%*
$0.665	*100%*
$1.011	*125%*
$1.367 or more	*150%*

** $8.10 represents a 3-year cumulative distribution of

$2.70 per annum, $2.70 being the distribution rate in effect at the start of the performance period.

In order to receive 75% of the units subject to this award, the cash distributions per unit declared and paid in the three years ended December 31, 2009 must total $8.43 per unit. In order to receive

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100%, the distributions per unit declared and paid for the three years ended December 31, 2009 must total $8.77 per unit. In order to receive 125%, the distributions per unit declared and paid for the three years ended December 31, 2009 must total $9.11 per unit. In order to receive 150%, the distributions per unit declared and paid in the three years ended December 31, 2009 must total $9.47 per unit. The percentages are interpolated between points.

In the event that the employment of either Mr. Clifton or Mr. Blair terminates prior to January 1, 2010, other than due to a defined change-in-control event, involuntary termination, death, disability or retirement, the applicable employee will forfeit his award. In the event of the involuntary termination, death or total and permanent

disability of either Mr. Clifton or Mr. Blair, as determined by the Committee in its sole discretion, or upon either of the employee s retirement after attaining age 62 or an earlier retirement age approved by the Committee in its sole discretion, the applicable employee shall forfeit a number of units equal to the percentage that the number of full months following the date of involuntary separation, death, disability or retirement to the end of the performance period bears to 36. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may make a payment assuming a performance percentage of up to 150% instead of the prorated number. The termination and change-in-control provisions of this award are described below under the section titled Potential Payments upon Termination or Change-in-Control.

(7) The vesting dates for the restricted units granted in March 2008 are described in the narrative disclosures in the section titled 2008 Grants of Plan-Based Awards under the heading Restricted Units.

(8) Messrs. Clifton and Blair received an award of performance units in March 2008. The vesting dates for this award are described in the narrative disclosures in the section titled 2008 Grants of Plan-Based Awards under the heading Performance Units.

(9) Mr. McDonnell retired as an officer of HLS on January 1, 2009 resulting in the prorated vesting of his then unvested units and the forfeiture of the remaining units, all as set forth in the descriptions of the calculation of units forfeited upon retirement herein.

2008 Option Exercises and Stock Vested

The following table presents stock options exercised by, and stock awards vested for, our Named Executive Officers during 2008:

	Stock Awards	
	Number of Shares	Value Realized on

Named Executive Officer	Acquired on Vesting	Vesting (6)
Matthew P. Clifton	0	0
Stephen J. McDonnell [1]	1,261	$ 55,213
Bruce R. Shaw [2]	240	$ 9,804
P. Dean Ridenour [3]	3,095	$135,406
David G. Blair [4]	1,016	$ 44,450
Mark T. Cunningham [5]	809	$ 33,647

(1) The following restricted units previously granted to Mr. McDonnell vested on January 1, 2008: (a) 168 restricted units granted in February 2005; (b) 416 restricted units granted in February 2006; and (c) 677 restricted units granted in February 2007.

(2) Includes 240 restricted units granted to Mr. Shaw on August 1, 2007 (as compensation for service as a non-employee member of HLS s Board of Directors) that vested on February 1, 2008.

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(3) The following restricted units previously granted to Mr. Ridenour vested on January 1, 2008: (a) 282 restricted units granted in February 2005; (b) 1,458 restricted units granted in February 2006; and (c) 1,355 restricted units granted in February 2007.

(4) All units were granted in February 2007 and vested on January 1, 2008.

(5) The following restricted units previously granted to Mr. Cunningham vested on January 1, 2008: (a) 69 restricted units granted in February 2005; (b) 141 restricted units granted in February 2006; and (c) 183 restricted units granted in February 2007. In addition, Mr. Cunningham was paid 416 units on January 22, 2008 as a result of the vesting of

performance units granted in February 2005.

(6) Calculated as the aggregate market value of the shares as of the respective vesting dates, based on the closing price of our common units on December 31, 2007, which is $43.75, on January 22, 2008, which is $39.55, and on January 31, 2008, which is $40.85.

Pension Benefits Table

Our Named Executive Officers participate in Holly s Retirement Plan, which generally provides a defined benefit to participants following their retirement. The table below sets forth an estimate of the retirement benefits payable to Messrs. Blair and Cunningham at normal retirement age under Holly s Retirement Plan. Messrs. Clifton, McDonnell and Shaw also participate in Holly s Retirement Plan; however, since we do not reimburse HLS for their pension benefits, which are instead paid for by Holly, we have not provided any disclosure with respect to their potential retirement benefits. The costs of the pension benefits for Messrs. Blair and Cunningham are reimbursed on a current basis. Mr. Ridenour retired on March 31, 2008 but receives all retirement benefits from Holly without reimbursement by HLS.

Pension Benefits

Name [1] (a)	Plan Name (b)	Number of Years Credited Service (c)	Present Value of Accumulated Benefit (d)	Payments During Last Fiscal Year (e)
Matthew P. Clifton	n/a	n/a	n/a	n/a
Stephen J. McDonnell	n/a	n/a	n/a	n/a
Bruce R. Shaw	n/a	n/a	n/a	n/a
P. Dean Ridenour	n/a	n/a	n/a	n/a
David G. Blair	Retirement Plan	27.8	$ 510,209	$ 0
Mark T. Cunningham[2]	Retirement Plan	4.5	$ 45,758	$ 0

(1) We do not reimburse HLS for the cost of pension benefits

for Messrs. Clifton, McDonnell, Shaw or Ridenour. Their retirement benefits are paid for by Holly.

(2) Mr. Cunningham is not eligible to commence his benefits as of December 31, 2008.

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Since Mr. Blair is over age 50 and has more than 10 years of service, he is eligible for early retirement in the Holly Retirement Plan on December 31, 2008. His early retirement benefit payable beginning January 1, 2009 is estimated to be $3,664 per month payable for his lifetime or $654,232 payable as a lump sum.

The actuarial present value of the accumulated benefits reflected in the above chart was determined using the same assumptions as used for financial reporting purposes except the payment date was assumed to be age 62 for Holly s Retirement Plan rather than age 65. Age 62 is the earliest date a benefit can be paid with no benefit reduction under Holly s Retirement Plan. In addition, the material assumptions used for these calculations include the following:

Discount Rate	6.50%
Mortality Table	RP2000 White Collar Projected to 2020 (50% male/ 50% female)

The amount of benefits accrued under the Retirement Plan is based upon a participant s compensation, age and length of service. The compensation taken into account under the Retirement Plan is a participant s average monthly compensation, which is based on an individual s base salary or base pay and any quarterly bonuses during the highest consecutive 36-month period of employment. No quarterly bonuses were provided to executives in 2008, but quarterly bonuses were paid to some non-executive union employees.

Holly s Retirement Plan provides for benefits upon normal retirement, early retirement, and late retirement, as well as providing accelerated deferred vested benefits, disability benefits, and death benefits. The normal retirement benefit under the plan may commence after an employee retires following his or her attainment of age 65. The normal form of payment is a monthly pension for the participant s life in an amount equal to (a) 1.6% of the participant s average monthly compensation multiplied by his or her total years of credited benefit service, minus (b) 1.5% of the participant s primary social security benefit multiplied by his or her total years of credited benefit service, such amount not to exceed 45% of the participant s primary social security benefit. An employee s benefit service is not deemed interrupted if the employee performed services for Holly and is later transitioned to work as an HLS employee. Instead of the normal form of payment, participants may also elect to receive their accrued benefits in the form of a life annuity with a period certain, a contingent annuity, or a lump sum.

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

Nonqualified Deferred Compensation Table

Our Named Executive Officers do not participate in any nonqualified deferred compensation plans.

Potential Payments Upon Termination or Change-in-Control

There are no employment agreements currently in effect between us and any Named Executive Officer, and the Named Executive Officers are not covered under any general severance plan of Holly, HLS or HEP. Holly has entered into Change-In-Control Agreements with Messrs. Blair and Cunningham. The expenses associated with the Change-in-Control Agreements are borne by Holly and are not reimbursable by us. Holly has also entered into similar agreements with Messrs. Clifton, McDonnell, Shaw and Ridenour, the costs of which are also borne by Holly. Because Messrs. Clifton, McDonnell, Shaw and Ridenour do not perform services solely on behalf of HEP, a quantification of their potential benefits under the Change-In-Control Agreement is not provided below but will be disclosed in Holly s annual proxy statement. Mr. Ridenour s Change-in-Control Agreement terminated on March 31, 2008, when his employment ended and he became an independent contractor consultant.

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The Change-In-Control Agreements are subject to an initial three year term, with an automatic one year extension on the second anniversary of the effective date (and on each anniversary date thereafter) unless a cancellation notice is given 60 days prior to the second anniversary of the effective date (or any anniversary date thereafter, as applicable). The Change-In-Control Agreements provide that if, in connection with or within two years after a Change-in-Control of Holly, HLS or HEP (1) the executive is terminated without Cause, leaves voluntarily for Good Reason, or is terminated as a condition of the occurrence of the transaction constituting the Change-in-Control, and (2) the executive is not offered employment with Holly or its related entities on substantially the same terms as his previous employment with HLS within 30 days after the termination, then the executive will receive the following cash severance amounts paid by Holly as outlined in the table below: (i) a cash payment, paid within 10 days following the executive s termination, equal to his accrued and unpaid salary, unreimbursed expenses and accrued vacation pay, and (ii) a lump sum amount, paid within 15 days following the executive s termination, equal to a multiple specified in the table below for such executive times (A) his annual base salary as of his date of termination or the date immediately prior to the Change-in-Control, whichever is greater, and (B) his annual bonus amount, calculated as the average annual bonus paid to him for the prior three years. In addition, the executive (and his dependents, as applicable) will receive a continuation of their medical and dental benefits for the number of years indicated in the table below for such executive.

Named Executive Officer	**Cash Severance Multiple**	**Years for Continuation of Medical and Dental Benefits**
David G. Blair	2 times	2
Mark T. Cunningham	1 times	1

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

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

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

(c) Good Reason means, without the express written consent of the executive: (i) a material reduction in the executive s (or his supervisor s) authority, duties or responsibilities, (ii) a material reduction in the executive s base compensation, or (iii) the relocation of the executive to an office or location more than 50 miles from the

location at which the executive normally performed the

executive s services, except for travel reasonably required in the performance of the executive s responsibilities. The executive must provide notice to Holly of the alleged Good Reason event within 90 days of its occurrence and Holly, HLS and HEP will be have an opportunity to remedy the alleged Good Reason event within 30 days from receipt of the notice of the allegation.

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

If amounts payable to an executive under a Change-In-Control Agreement (together with any other amounts that are payable by Holly, HLS or HEP as a result of a change in ownership or control) (collectively, the Payments) exceed the amount allowed under section 280G of the Code for such executive by 10% or more, Holly will pay the executive a tax gross up (a Gross Up) in an amount necessary to allow the executive to retain (after all regular income and Code Section 280G taxes) a net amount equal to the total present value of the Payments on the date they are to be paid (after all regular income taxes but without reduction for Code Section 280G taxes). Conversely, the Payments will be reduced if they exceed the Code Section 280G limit for the executive by less than 10% (a Cut Back).

In addition, under the terms of the long-term incentive equity awards described above, if, in the event of a Change-in-Control , either sixty (60) days prior to the Change-in-Control event or following such event, (i) a Named Executive Officer s employment is terminated, other than for cause, or (ii) he resigns within ninety (90) days following an Adverse Change, then all restrictions on the award will lapse, the units will become vested and the vested units will be delivered to the Named Executive Officer as soon as practicable, though in accordance with any potential delay in payments required by Section 409A of the Code to avoid excess taxes or interest. For the 2006, 2007 and 2008 long-term incentive equity awards, the units will vest at 150% in the event of a Change in Control.

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

(a) Adverse Change means without the consent of the executive, (i) a change in the executive s principal office of employment of more than 25 miles from the executive s work address at the time of a grant of the equity award, (ii) a substantial increase or reduction in the duties performed by the executive, or (iii) a material reduction in the executive s base compensation (other than a general reduction applicable generally to executives).

(b) Cause means (i) an act of dishonesty constituting a felony or serious misdemeanor and resulting (or intended to result in) personal gain or enrichment to the executive at the expense of HLS, (ii) gross or willful and wanton negligence in the performance of the executive s material duties, or (ii) conviction of a felony involving moral turpitude.

(c) Change-in-Control means, subject to certain specific exceptions set forth in the long-term equity incentive awards: (i) a person or group of persons becomes the beneficial owner of more than 40% of the combined voting power of the then outstanding securities of Holly, HLS, HEP or HEP Logistics Holdings, L.P. (HLH), (ii) a majority of the members of Holly s board of directors is replaced by directors who were not endorsed by two-thirds of the board members prior to their appointment, (iii) the consummation of a merger of consolidation of Holly, HLS, HEP or any subsidiary of any of the foregoing other than (A) a merger or consolidation resulting in the voting securities of Holly, HLS, HLH or HEP, as applicable, outstanding immediately prior to the transaction continuing to represent at least 60% of the combined voting power of the voting securities of Holly, HLS, HLH, HEP or the surviving entity, as applicable, outstanding immediately

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after the transaction, or (B) a merger of consolidation effected to implement a recapitalization of Holly, HLS, HLH or HEP in which no person or group becomes the beneficial owner of securities of Holly, HLS, HLH or HEP representing more than 40% of the combined voting power of the then outstanding securities of Holly, HLS, HLH or HEP, or (iv) the stockholders or unit holders, as applicable, of Holly, HLS, HLH or HEP approve a plan of complete liquidation or dissolution of Holly, HLS, HLH or HEP or an agreement for the sale or disposition of all or substantially all of the assets of Holly, HLS, HLH or HEP.

The following table reflects the estimated payments due pursuant to the Change-In-Control Agreements and the accelerated vesting of equity awards of each Named Executive Officer as of December 31, 2008, assuming, as applicable, that a Change-in-Control occurred (under both the Change-in-Control Agreements and the equity awards) and such executives were terminated effective December 31, 2008. For these purposes, our common unit price was assumed to be $21.35, which is the closing price on December 31, 2008. The amounts below have been calculated using numerous assumptions that we believe are reasonable, such as all reimbursable expenses were current as of December 31, 2008. Accrued vacation is not allowed to be carried over to a subsequent year, so we assumed all accrued vacation for the 2008 year was taken prior to December 31, 2008. Employees accrue vacation in 2008 for use in 2009, so we included the value of the 2009 accrued but unused vacation. However, any actual payments that may be made pursuant to the agreements described above are dependent on various factors, which may or may not exist at the time a Change-in-Control actually occurs and the Named Executive Officer is actually terminated. Therefore, such amounts and disclosures should be considered forward looking statements.

	Cash Payments(1)	Value of Welfare Benefits(2)	Accelerated Vesting of Equity Awards	Excise Tax Gross Up or Cut Back	Total
Matthew P. Clifton	n/a	n/a	$ 1,053,537(3)	n/a	$ 1,053,537
Stephen J. McDonnell(6)	n/a	n/a	$ 85,763(4)	n/a	$ 85,763
Bruce R. Shaw	n/a	n/a	$ 104,786(4)	n/a	$ 104,786
P. Dean Ridenour(7)	n/a	n/a	$ 101,071(4)	n/a	$ 101,071
David G. Blair	$ 803,258	$ 22,041	$ 344,675(5)	n/a	$ 1,169,974
Mark T. Cunningham	$ 259,869	$ 16,810	$ 53,204(4)	n/a	$ 329,883

(1) Represents cash payments equal to (a) accrued vacation ($31,050 for Mr. Blair and $13,491 for Mr. Cunningham), plus (b) the executive s base salary as of December 31, 2008 and the average of the annual cash bonus paid for 2005, 2006 and 2007 times the multiplier identified above. The total for Mr. Blair was calculated by multiplying two (2) times the sum of his base salary ($269,104) and average bonus ($117,000). The total for Mr. Cunningham was calculated by multiplying one (1) times the sum of his base salary ($175,378) and average bonus ($71,000).

(2) Represents the value of the continuation of medical and dental benefits for the length of one year multiplied by the applicable multiplier identified above. The amount was determined based upon the applicable COBRA rates for the employee s benefits. The value of the benefits was determined by using the current monthly premium amount for a similarly situated employee electing COBRA continuation coverage.

(3) Mr. Clifton held 7,802 unvested restricted units on December 31, 2008. Vesting of these restricted units is at 100% and is contingent upon the satisfaction of a performance standard, and the performance standard has not been satisfied to date. See Outstanding Equity Awards at Fiscal Year End. Mr. Clifton also held 27,696 performance units on December 31, 2008. The amount in the table was reached by multiplying his 7,802 restricted units by the closing price of HEP units on December 31, 2008 of $21.35, to equal $166,573. Because Mr. Clifton is eligible to receive 150% of the performance units under the terms of the long-term incentive plan, his 27,696 performance units were first multiplied by 1.5, and then again by $21.35, to equal

$886,964. These two amounts, $166,573 and $886,964, were added together to reach the total amount of $1,053,537 that is disclosed in the table above.

(4) Based upon a payment of 100% of the HEP restricted units as provided for under the terms of the long-term incentive equity agreements governing the awards of the units and based upon the closing price of HEP units on December 31, 2008 of $21.35.

(5) Mr. Blair held 5,848 shares of restricted stock, and 6,864 performance units on December 31, 2008. The amount in the table was reached by multiplying his 5,848 shares of restricted stock by $21.35, to equal $124,855. Because Mr. Blair is eligible to receive 150% of the performance units under the terms of the long-term incentive plan, his 6,864 performance units were first multiplied by 1.5, and then again by $21.35, to equal $219,820. These two amounts, $124,855 and $219,820, were added together to reach the total amount of $344,675 that is disclosed in the table above.

(6) Mr. McDonnell s change in control agreement terminated upon his retirement on January 1, 2009.

(7) Although Mr. Ridenour became a consultant March 31, 2008, the Committee determined that his work as a consultant will be treated as continuing employment for vesting purposes. Mr. Ridenour s transition to a consulting agreement will have created an obligation to disclose any payments that he actually received at the termination of his employment status under this section, but as noted above, because his employment is largely with Holly and not HEP, these amounts, if any, will be discussed in Holly s annual proxy statement. As his transition from employee to consultant did not impact the vesting of his equity compensation, we have treated Mr. Ridenour as continuing his services for us past his actual termination of employment date, and he will remain subject to the same restrictions on his equity awards as he did during the term of his employment.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters

The following table sets forth as of February 6, 2009 the beneficial ownership of units of HEP held by beneficial owners of 5% or more of the units, by directors of HLS, the general partner of our general partner, by each executive officer and by all directors and executive officers of HLS as a group. HEP Logistics Holdings, L.P. is an indirect wholly-owned subsidiary of Holly Corporation. Unless otherwise indicated, the address for each unitholder shall be c/o Holly Energy Partners, L.P., 100 Crescent Court, Suite 1600, Dallas, Texas 75201-6915.

Name of Beneficial Owner	Common Units Beneficially Owned	Percentage of Common Units Beneficially Owned	Subordinated Units Beneficially Owned	Percentage of Subordinated Units Beneficially Owned	Percentage of Total Units Beneficially Owned
HEP Logistics Holdings, L.P. [1]	290,000	3.5	7,000,000	88.2	45.8
Fiduciary Asset Management, LLC [2]	691,698	8.2			4.2
Alon USA			937,500	11.8	5.7
Kayne Anderson Capital Advisors, L.P. [3]	758,600	9.0			4.6
Tortoise Capital Advisors LLC [4]	573,524	6.8			3.5
Matthew P. Clifton[5]	67,246	*			*
David G. Blair[5]	8,948	*			*
Bruce R. Shaw [5]	5,253	*			*
Mark T. Cunningham[5]	4,783	*			*
P. Dean Ridenour [5]	28,653	*			*
Charles M. Darling, IV [5]	17,134	*			*
William J. Gray [5]	8,733	*			*
Jerry W. Pinkerton [5]	7,934	*			*
William P. Stengel [5]	6,934	*			*
All directors and executive officers as group (10 persons) [5]	157,618	1.9			1.0

* Less than 1%

(1) HEP Logistics Holdings, L.P., directly holds 70,000 common units. Holly Corporation is the ultimate parent company of HEP Logistics Holdings, L.P., and may, therefore, be deemed to beneficially own the units held by

HEP Logistics Holdings, L.P. Additionally, 220,000 of the common units listed in the entry for HEP Logistics Holdings, L.P. are held by Holly Corporation or affiliates of Holly Corporation under common control with HEP Logistics Holdings, L.P. Holly Corporation files information with or furnishes information to, the Securities and Exchange Commission pursuant to the information requirements of the Exchange Act. The percentage of total units beneficially owned includes a 2% general partner interest held by HEP Logistics Holdings, L.P.

(2) Fiduciary Asset Management, LLC has filed with the SEC a Schedule 13G/A, dated September 19, 2007. Based on this Schedule 13G/A, Fiduciary Asset Management,

LLC has sole voting power and sole dispositive power with respect to zero units, and shared voting and dispositive power with respect to 691,698 units. The address of Fiduciary Asset Management, LLC is 8112 Maryland Avenue, Suite 400 St. Louis, MO 63105.

(3) Kayne Anderson Capital Advisors, L.P. has filed with the SEC a Schedule 13G/A, dated January 23, 2008. Based on this Schedule 13G/A, Kayne Anderson Capital Advisors, L.P. has sole voting power and sole dispositive power with respect to zero units, and shared voting power and shared dispositive power with respect to 758,600 units. The address of Kayne Anderson Capital Advisors, L.P. is 1800 Avenue of the Stars, Second Floor, Los Angeles, CA 90067.

(4) Tortoise Capital Advisors LLC has filed with the SEC a Schedule 13G/A, dated February 12, 2008. Based on this Schedule 13G/A, Tortoise Capital Advisors LLC has sole voting power and sole dispositive power with respect to zero units, shared voting power with respect to 532,372 units and shared dispositive power with respect to 573,524 units. The address of Tortoise Capital Advisors LLC is 10801 Mastin Blvd., Suite 222, Overland Park, Kansas 66210.

(5) The number of units beneficially owned includes restricted common units granted as follows: 1,466 units each to Mr. Darling, Mr. Pinkerton and Mr. Stengel, 1,833 to Mr. Gray, 3,593 to Mr. Ridenour, 7,802 units to Mr. Clifton, 3,560 units to Mr. Blair, 3,272 units to Mr. Shaw, 1,484 units to

Mr. Cunningham,
a combined total
of 25,942 units.

Equity Compensation Plan Table

The following table summarizes information about our equity compensation plans as of December 31, 2008:

	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	**Weighted average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected)**
Equity compensation plans approved by security holders			
Equity compensation plans not approved by security holders			226,268
Total			226,268

For more information about our Long-Term Incentive Plan, which did not require approval by our limited partners, refer to Item 11, Executive and Director Compensation Long-Term Incentive Plans .

Item 13. Certain Relationships, Related Transactions and Director Independence

Our general partner and its affiliates own 7,000,000 of our subordinated units and 290,000 of our common units, which combined represent a 44% limited partner interest in us. In addition, the general partner owns a 2% general partner interest in us. Transactions with the general partner are discussed below.

On February 28, 2005, we acquired from Alon four refined products pipelines, an associated tank farm and two refined products terminals. The total consideration paid for these pipeline and terminal assets was $120.0 million in cash and 937,500 of our Class B subordinated units, which, subject to certain conditions, will convert into an equal number of common units on February 28, 2010. Alon owns all of our Class B subordinated units, which represents 5.7% of our total outstanding equity ownership.

For the year ended December 31, 2008, we recognized revenues of $11.6 million under the 15-year pipelines and terminals agreement with Alon and $7.0 million pursuant to capacity lease arrangements on our Orla to El Paso pipeline with Alon.

See Item 10 for a discussion of Director Independence.

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DISTRIBUTIONS AND PAYMENTS TO THE GENERAL PARTNER AND ITS AFFILIATES

The following table summarizes the distributions and payments to be made by us to our general partner and its affiliates in connection with the ongoing operation and liquidation of HEP. These distributions and payments were determined by and among affiliated entities and, consequently, are not the result of arm s-length negotiations.

Operational stage

Distributions of available cash to our general partner and its affiliates	We generally make cash distributions 98% to the unitholders, including our general partner and its affiliates as the holders of an aggregate of 7,000,000 of the subordinated units, 290,000 common units and 2% to the general partner. In addition, if distributions exceed the minimum quarterly distribution and other higher target levels, our general partner is entitled to increasing percentages of the distributions, up to 50% of the distributions above the highest target level.
Payments to our general partner and its affiliates	We pay Holly or its affiliates an administrative fee, currently $2.3 million per year, for the provision of various general and administrative services for our benefit. The administrative fee may increase following the second and third anniversaries by the greater of 5% or the percentage increase in the consumer price index and may also increase if we make an acquisition that requires an increase in the level of general and administrative services that we receive from Holly or its affiliates. In addition, the general partner is entitled to reimbursement for all expenses it incurs on our behalf, including other general and administrative expenses. These reimbursable expenses include the salaries and the cost of employee benefits of employees of HLS who provide services to us. Please read Omnibus Agreement below. Our general partner determines the amount of these expenses.
Withdrawal or removal of our general partner	If our general partner withdraws or is removed, its general partner interest and its incentive distribution rights will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests.

Liquidation stage

Liquidation	Upon our liquidation, the partners, including our general partner, will be entitled to receive liquidating distributions according to their particular capital account balances.

OMNIBUS AGREEMENT

On July 13, 2004, we entered into the Omnibus Agreement with Holly and our general partner that addresses the following matters:

- our obligation to pay Holly an annual administrative fee, currently in the amount of $2.3 million, for the provision by Holly of certain general and administrative services;

- Holly s and its affiliates agreement not to compete with us under certain circumstances;
- an indemnity by Holly for certain potential environmental liabilities;
- our obligation to indemnify Holly for environmental liabilities related to our assets existing on the date of our initial public offering to the extent Holly is not required to indemnify us;
- Holly s right of first refusal to purchase our assets that serve Holly s refineries.

Portions of the Omnibus Agreement relating to environmental indemnification have been amended in connection with our purchase of the Intermediate Pipelines in 2005 and the Crude Pipelines and Tankage Assets in 2008.

Payment of general and administrative services fee

Under the Omnibus Agreement we pay Holly an annual administrative fee, currently in the amount of $2.3 million, for the provision of various general and administrative services for our benefit. The contract provides that this amount may be increased on the third anniversary following our initial public offering by the greater of 5% or the percentage increase in the consumer price index for the applicable year. Our general partner, with the approval and consent of its conflicts committee, also has the right to agree to further increases in connection with expansions of our operations through the acquisition or construction of new assets or businesses. Following the initial three-year period under this agreement, our general partner will determine the general and administrative expenses that will be allocated to us. The $2.3 million fee includes expenses incurred by Holly and its affiliates to perform centralized corporate functions, such as legal, accounting, treasury, information technology and other corporate services, including the administration of employee benefit plans. The fee does not include salaries of pipeline and terminal personnel or other employees of HLS or the cost of their employee benefits, such as 401(k), pension, and health insurance benefits, which are separately charged to us by Holly. We also reimburse Holly and its affiliates for direct general and administrative expenses they incur on our behalf.

Noncompetition

Holly and its affiliates have agreed, for so long as Holly controls our general partner, not to engage in, whether by acquisition or otherwise, the business of operating crude oil pipelines or terminals, refined products pipelines or terminals, Intermediate Pipelines or terminals, truck racks or crude oil gathering systems in the continental United States. This restriction will not apply to:

- any business operated by Holly or any of its affiliates at the time of the closing of our initial public offering;
- any business conducted by Holly with the approval of our conflicts committee;
- any business or asset that Holly or any of its affiliates acquires or constructs that has a fair market value or construction cost of less than $5.0 million; and
- any business or asset that Holly or any of its affiliates acquires or constructs that has a fair market value or construction cost of $5.0 million or more if we have been offered the opportunity to purchase the business or asset at fair market value, and we decline to do so with the concurrence of our conflicts committee.

The limitations on the ability of Holly and its affiliates to compete with us will terminate if Holly ceases to control our general partner.

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Indemnification

Under the Omnibus Agreement, Holly has also agreed to indemnify us up to certain aggregate amounts for any environmental noncompliance and remediation liabilities associated with assets transferred to us and occurring or existing prior to the date of such transfers. The Omnibus Agreement provides environmental indemnification of up to $15.0 million through 2014 for the assets transferred to us at the time of our initial public offering in 2004 and up to $2.5 million through 2015 for the Intermediate Pipelines acquired in July 2005. In February 2008, Holly amended the Omnibus Agreement to provide an additional $7.5 million of indemnification through 2023 for environmental noncompliance and remediation liabilities specific to the Crude Pipelines and Tankage Assets.

We indemnified Holly and its affiliates against environmental liabilities related to our assets existing on the date of our initial public offering to the extent Holly has not indemnified us.

Right of first refusal to purchase our assets

The Omnibus Agreement also contains the terms under which Holly has a right of first refusal to purchase our assets that serve its refineries. Before we enter into any contract to sell pipeline and terminal assets serving Holly s refineries, we must give written notice of the terms of such proposed sale to Holly. The notice must set forth the name of the third party purchaser, the assets to be sold, the purchase price, all details of the payment terms and all other terms and conditions of the offer. To the extent the third party offer consists of consideration other than cash (or in addition to cash), the purchase price shall be deemed equal to the amount of any such cash plus the fair market value of such non-cash consideration, determined as set forth in the Omnibus Agreement. Holly will then have the sole and exclusive option for a period of thirty days following receipt of the notice, to purchase the subject assets on the terms specified in the notice.

PIPELINES AND TERMINALS AGREEMENTS

We serve Holly s refineries in New Mexico and Utah under three 15-year pipeline, terminal and tankage agreements with Holly. We have an agreement that relates to the pipelines and terminals contributed by Holly to us at the time of our initial public offering in 2004 and expires in 2019, the Holly PTA. Our second agreement with Holly relates to the Intermediate Pipelines acquired from Holly in July 2005 and expires in 2020, the Holly IPA. And third, we have an agreement that relates to the Crude Pipelines and Tankage Assets acquired from Holly and expires on February 29, 2023, the Holly CPTA.

These agreements are described under Business Agreements with Holly and Alon under Item 1 of this Annual Report on Form 10-K .

Holly s obligations under these agreements will not terminate if Holly and its affiliates no longer own the general partner. These agreements may be assigned by Holly only with the consent of our conflicts committee.

SUMMARY OF TRANSACTIONS WITH HOLLY

On February 29, 2008, we acquired the Crude Pipelines and Tankage Assets from Holly for $180.0 million. The consideration paid consisted of $171.0 million in cash and 217,497 of our common units having a fair value of $9.0 million. See Holly Crude Pipelines and Tankage Transaction under Item 1, Business of this Annual Report on Form 10-K.

Pipeline and terminal revenues received from Holly were $85.0 million, $61.0 million and $52.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. These amounts include the revenues received under the Holly PTA, Holly IPA and Holly CPTA.

Other revenues for the year ended December 31, 2007 were $2.7 million related to our sale of inventory of accumulated terminal overages of refined product. These overages arose from net product gains at our terminals from the beginning of 2005 through the third quarter of 2007. We have

negotiated an amendment to our pipelines and terminals agreement with Holly that provides that such terminal overages of refined product shall belong to Holly in the future.

Holly charged general and administrative services under the Omnibus Agreement of $2.2 million for the year ended December 31, 2008 and $2.0 million for each of the years ended December 31, 2007 and 2006.

We reimbursed Holly for costs of employees supporting our operations of $13.1 million, $8.5 million and $7.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Holly reimbursed us $0.3 million and $0.2 million for the years ended December 31, 2007 and 2006, respectively, for certain costs paid on their behalf.

We distributed $25.6 million, $22.8 million and $20.3 million for the years ended December 31, 2008, 2007 and 2006, respectively, to Holly as regular distributions on its subordinated units, common units and general partner interest.

REVIEW, APPROVAL OR RATIFICATION OF TRANSACTIONS WITH RELATED PERSONS

The disclosure, review and approval of any transactions with related persons is governed by our Code of Business Conduct and Ethics, which provides guidelines for disclosure, review and approval of any transaction that creates a conflict of interest between us and our employees, officers or directors and members of their immediate family. Conflict of interest transactions may be authorized if they are found to be in the best interest of the Partnership based on all relevant facts. Pursuant to the Code of Business Conduct and Ethics, conflicts of interest are to be disclosed to and reviewed by a superior employee to the related person who does not have a conflict of interest, and additionally, if more than trivial size, by the superior of the reviewing person. Conflicts of interest involving directors or senior executive officers are reviewed by the full Board of Directors or by a committee of the Board of Directors on which the related person does not serve. Related party transactions required to be disclosed in our SEC reports are reported through our disclosure controls and procedures.

There are no transactions disclosed in this Item 13 entered into since January 1, 2008 that were not required to be reviewed, ratified or approved pursuant to our Code of Business Conduct and Ethics or with respect to which our policies and procedures with respect to conflicts of interest were not followed.

Item 14. Principal Accountant Fees and Services

The audit committee of the board of directors of HLS selected Ernst & Young LLP, Independent Registered Public Accounting Firm, to audit the books, records and accounts of the Partnership for the 2008 calendar year.

Fees paid to Ernst & Young LLP for 2008 and 2007 are as follows:

	2008	**2007**
Audit Fees (1)	$ 592,300	$ 535,000
Audit Related Fees		
Tax Fees (2)		
All Other Fees		
Total	$ 592,300	$ 535,000

(1) Represents fees for professional services provided in connection with the audit of our annual financial statements and internal controls over financial reporting, review of our quarterly financial statements, and procedures performed as part of our securities filings.

(2) Tax services are among the administrative services that Holly provides to HEP under the Omnibus Agreement. Therefore, Holly paid $212,200 and $415,300 to Ernst & Young LLP for tax services provided to HEP in the years ended December 31, 2008 and 2007, respectively. Beginning in 2009, one-half of all fees related to tax services and all fees related to the preparartion of our Partnership K-1 s will be paid by us.

The audit committee of our general partner s board of directors has adopted an audit committee charter, which is available on our website at www.hollyenergy.com. The charter requires the audit committee to approve in advance all audit and non-audit services to be provided by our independent registered public accounting firm. All services reported in the audit, audit-related, tax and all other fee categories above were approved by the audit committee in advance.

Part IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents filed as part of this report

(1) Index to Consolidated Financial Statements

	Page in Form 10-K
Report of Independent Registered Public Accounting Firm	64
Consolidated Balance Sheets at December 31, 2008 and 2007	65
Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006	66
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006	67
Consolidated Statements of Partners Equity (Deficit) for the years ended December 31, 2008, 2007 and 2006	68
Notes to Consolidated Financial Statements	69

(2) Index to Consolidated Financial Statement Schedules

All schedules are omitted since the required information is not present in or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

(3) Exhibits

2.1	Purchase and Sale Agreement, dated February 25, 2008 between Holly Corporation, Navajo Pipeline Co., L.P., Navajo Refining Company, L.L.C., Woods Cross Refining Company, L.L.C., Holly Energy Partners, L.P., Holly Energy Partners Operating, L.P., HEP Pipeline, L.L.C., and HEP Woods Cross, L.L.C. (incorporated by reference to Exhibit 2.1 of Registrant s Form 8-K Current Report dated February 27, 2008, File No. 1-32225).
3.1	First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P. (incorporated by reference to Exhibit 3.1 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
3.2	Amendment No. 1 to the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated February 28, 2005 (incorporated by reference to Exhibit 3.1 of Registrant s Form 8-K Current Report dated February 28, 2005, File No. 1-32225).
3.3	Amendment No. 2 to the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., as amended, dated July 6, 2005 (incorporated by reference to Exhibit 3.1 of Registrant s Form 8-K Current Report dated July 6, 2005, File No. 1-32225).

3.4	Amendment No. 3 to First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated April 11, 2008 (incorporated by reference to Exhibit 4.1 of Registrant s Current Report on Form 8-K filed April 15, 2008, File No. 1-32225).
3.5	First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners Operating Company, L.P. (incorporated by reference to Exhibit 3.2 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
3.6	First Amended and Restated Agreement of Limited Partnership of HEP Logistics Holdings, L.P. (incorporated by reference to Exhibit 3.4 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
3.7	First Amended and Restated Limited Liability Company Agreement of Holly Logistic Services, L.L.C. (incorporated by reference to Exhibit 3.5 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
3.8	First Amended and Restated Limited Liability Company Agreement of HEP Logistics GP, L.L.C. (incorporated by reference to Exhibit 3.6 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
4.1	Indenture, dated February 28, 2005, among the Issuers, the Guarantors and the Trustee (incorporated by reference to Exhibit 4.1 of Registrant s Form 8-K Current Report dated February 28, 2005, File No. 1-32225).
4.2	Form of 6.25% Senior Note Due 2015 (included as Exhibit A to the Indenture filed as Exhibit 4.1 hereto) (incorporated by reference to Exhibit 4.2 of Registrant s Form 8-K Current Report dated February 28, 2005, File No. 1-32225).
4.3	Form of Notation of Guarantee (included as Exhibit E to the Indenture filed as Exhibit 4.1 hereto) (incorporated by reference to Exhibit 4.3 of Registrant s Form 8-K Current Report dated February 28, 2005, File No. 1-32225).
4.4	First Supplemental Indenture, dated March 10, 2005, among HEP Fin-Tex/Trust-River, L.P., Holly Energy Partners, L.P., Holly Energy Finance Corp., the other Guarantors, and U.S. Bank National Association (incorporated by reference to Exhibit 4.5 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2005, File No. 1-32225).
4.5	Second Supplemental Indenture, dated April 27, 2005, among Holly Energy Partners, L.P., Holly Energy Finance Corp., the other Guarantors, and U.S. Bank National Association (incorporated by reference to Exhibit 4.6 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2005, File No. 1-32225).
10.1	Option Agreement, dated January 31, 2008, by and among Holly Corporation, Holly UNEV Pipeline Company, Navajo Pipeline Co., L.P., Holly Logistic Services, L.L.C., HEP Logistics Holdings, L.P., Holly Energy Partners, L.P., HEP Logistics GP, L.L.C. and Holly Energy Partners Operating, L.P. (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated February 5, 2008, File No. 1-32225).

10.2 Pipelines and Tankage Agreement, dated February 29, 2008, between Holly Corporation, Navajo Pipeline Co., L.P., Navajo Refining Company, L.L.C., Woods Cross Refining Company, L.L.C., Holly Energy Partners, L.P., Holly Energy Partners Operating, L.P., HEP Pipeline, L.L.C., and HEP Woods Cross, L.L.C. (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated March 6, 2008, File No. 1-32225).

10.3 Mortgage, Line of Credit Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.2 of Registrant s Form 8-K Current Report dated March 6, 2008, File No. 1-32225).

10.4 Mortgage, Line of Credit Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.3 of Registrant s Form 8-K Current Report dated March 6, 2008, File No. 1-32225).

10.5 Mortgage, Line of Credit Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.4 of Registrant s Form 8-K Current Report dated March 6, 2008, File No. 1-32225).

10.6 Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.5 of Registrant s Form 8-K Current Report dated March 6, 2008, File No. 1-32225).

10.7 Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.6 of Registrant s Form 8-K Current Report dated March 6, 2008, File No. 1-32225).

10.8 Fee and Leasehold Deed of Trust, dated February 29, 2008, by HEP Woods Cross, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.7 of Registrant s Form 8-K Current Report dated March 6, 2008, File No. 1-32225).

10.9 Amended and Restated Credit Agreement, dated August 27, 2007, between Holly Energy Partners Operating, L.P., Union Bank of California, N.A., as administrative agent, issuing bank and sole lead arranger, Bank of America, N.A., as syndication agent, Guaranty Bank, as documentation agent and certain other lenders (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated October 31, 2007, File No. 1-32225).

10.10 Agreement and Amendment No. 1 to Amended and Restated Credit Agreement, dated February 25, 2008, between Holly Energy Partners Operating, L.P., Union Bank of California, N.A., as administrative agent, issuing bank and sole lead arranger and certain other lenders (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated February 27, 2008, File No. 1-32225).

10.11 Amendment No. 2 to Amended and Restated Credit Agreement, dated September 8, 2008, between Holly Energy Partners Operating, L.P., certain of its subsidiaries acting as guarantors, Union Bank of California, N.A., as administrative agent, issuing bank and sole lead arranger and certain other lenders (incorporated by reference to Exhibit 10.1 of Registrant s Quarterly Report on Form 10-Q filed October 31, 2008, File No. 1-32225)

10.12*

Amended and Restated Pledge Agreement, dated August 27, 2007, between Holly Energy Partners Operating, L.P., certain of its subsidiaries, and Union Bank of California, N.A., as administrative agent (entered into in connection with the Amended and Restated Credit Agreement).

10.13* Amended and Restated Guaranty Agreement, dated August 27, 2007, between Holly Energy Partners Operating, L.P., certain of its subsidiaries, and Union Bank of California, N.A., as administrative agent (entered into in connection with the Amended and Restated Credit Agreement).

10.14* Amended and Restated Security Agreement, dated August 27, 2007, between Holly Energy Partners Operating, L.P., certain of its subsidiaries, and Union Bank of California, N.A., as administrative agent (entered into in connection with the Amended and Restated Credit Agreement).

10.15* Form of Mortgage, Deed of Trust, Security Agreement, Assignment of Rents and Leases, Fixture Filing and Financing Statement (for purposes of granting security interests in real property in connection with the Amended and Restated Credit Agreement).

10.16 Form of Mortgage and Deed of Trust (Oklahoma) (incorporated by reference to Exhibit 10.2 of Registrant s Form 8-K Current Report dated February 28, 2005, File No. 1-32225).

10.17 Form of Mortgage and Deed of Trust (Texas) (incorporated by reference to Exhibit 10.3 of Registrant s Form 8-K Current Report dated February 28, 2005, File No. 1-32225).

10.18 Mortgage and Deed of Trust, dated July 8, 2005, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.2 of Registrant s Form 8-K Current Report dated July 6, 2005, File No. 1-32225).

10.19 Omnibus Agreement, effective as of July 13, 2004, as amended, among Holly Corporation, Navajo Pipeline Co., L.P., Holly Logistic Services, L.L.C., HEP Logistics Holdings, L.P., Holly Energy Partners, L.P., HEP Logistics GP, L.L.C. and HEP Operating Company, L.P. (incorporated by reference to Exhibit 10.7 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225). See the amendments to the Omnibus Agreement contained in Section 10.11 of Exhibit 2.1 to the Registrant s Current Report on Form 8-K dated July 6, 2005 and in Section 10.11 of Exhibit 2.1 to this Annual Report on Form 10-K.

10.20 Pipelines and Terminals Agreement, dated July 13, 2004, by and among Holly Corporation, Navajo Refining Company, L.P., Holly Refining and Marketing Company, Holly Energy Partners, L.P., HEP Operating Company, L.P., HEP Logistics Holdings, L.P., Holly Logistic Services, L.L.C., and HEP Logistics GP, L.L.C. (incorporated by reference to Exhibit 10.8 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).

10.21 Fifth Amendment to Pipelines and Terminals Agreement, dated October 15, 2007, by and among Holly Corporation, Navajo Refining Company, L.P., Holly Refining and Marketing Company, Holly Energy Partners Operating, L.P., HEP Logistics Holdings, L.P., Holly Logistic Services, L.L.C. and HEP Logistics GP, L.L.C. (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated October 19, 2007, File No. 1-32225).

10.22 Pipelines and Terminals Agreement, dated February 28, 2005, among the Partnership and Alon USA, LP2005 (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated February 28, 2005, File No. 1-32225).

10.23 Pipelines Agreement, dated July 8, 2005, among Holly Energy Partners, L.P., Holly Energy Partners Operating, L.P., Holly Corporation, HEP Pipeline, L.L.C., Navajo Refining Company, L.P., HEP Logistics Holdings, L.P., Holly Logistic Services, L.L.C. and HEP Logistics GP, L.L.C. (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated July 6, 2005, File No. 1-32225).

10.24

Corrected Version Dated October 10, 2007 of Amendment and Supplement to Pipeline Lease Agreement effective as of August 31, 2007 between HEP Pipeline Assets, Limited Partnership and Alon USA, L.P. (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated October 16, 2007, File No. 1-32225).

10.25+	Holly Energy Partners, L.P. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
10.26+*	First Amendment to the Holly Energy Partners, L.P. Long-Tem Incentive Plan, dated December 31, 2008.
10.27+*	Second Amendment to the Holly Energy Partners, L.P. Long-Term Incentive Plan, date December 31, 2008.
10.28+	Holly Logistic Services, L.L.C. Annual Incentive Plan (incorporated by reference to Exhibit 10.10 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225).
10.29+	Form of Director Restricted Unit Agreement (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K dated November 15, 2004, File No. 1-32225).
10.30+	Form of Employee Restricted Unit Agreement (incorporated by reference to Exhibit 10.2 of Registrant s Current Report on Form 8-K dated November 15, 2004, File No. 1-32225).
10.31+	Form of Restricted Unit Agreement (with Performance Vesting) (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated August 4, 2005, File No. 1-32225).
10.32+	Form of Restricted Unit Agreement (without Performance Vesting) (incorporated by reference to Exhibit 10.2 of Registrant s Form 8-K Current Report dated August 4, 2005, File No. 1-32225).
10.33+	Form of Performance Unit Agreement (incorporated by reference to Exhibit 10.1 of Registrant s Form 8-K Current Report dated January 12, 2007, File No. 1-32225).
10.34+	First Amendment to the Holly Energy Partners, L.P. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2005, File No. 1-32225).
10.35+	Holly Energy Partners, L.P. Employee Form of Change in Control Agreement (incorporated by reference to Exhibit 10.3 of Registrant s Form 8-K Current Report dated February 20, 2008, File No. 1-32225).
10.36+	Form of Amendment to Performance Unit Agreement Under the Holly Energy Partners, L.P. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Current Report dated February 10, 2006, File No. 1-32225).
10.37+*	First Amendment to Form of Performance Unit Agreement under the Holly Energy Partners, L.P. Long-Term Incentive Plan.
12.1*	Statement of Computation of Ratio of Earnings to Fixed Charges.
21.1*	Subsidiaries of Registrant.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

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31.2* Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

32.1* Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

32.2* Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

\+ Constitutes management contracts or compensatory plans or arrangements.

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HOLLY ENERGY PARTNERS, L.P.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOLLY ENERGY PARTNERS, L.P.
(Registrant)

By: HEP LOGISTICS HOLDINGS, L.P.
its General Partner

By: HOLLY LOGISTIC SERVICES, L.L.C.

its General Partner

Date: February 13, 2009

/s/ Matthew P. Clifton
Matthew P. Clifton
Chairman of the Board of Directors and Chief Executive Officer

/s/ Bruce R. Shaw
Bruce R. Shaw
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Scott C. Surplus
Scott C. Surplus
Vice President and Controller
(Principal Accounting Officer)

/s/ Charles M. Darling, IV
Charles M. Darling, IV
Director

/s/ William J. Gray
William J. Gray
Director

/s/ Jerry W. Pinkerton
Jerry W. Pinkerton
Director

/s/ P. Dean Ridenour
P. Dean Ridenour
Director

/s/ William P. Stengel
William P. Stengel
Director