HOLLY ENERGY PARTNERS LP
Form 424B5
November 02, 2009

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The information in this preliminary prospectus supplement and accompanying base prospectus is not complete and may be changed. This preliminary prospectus supplement and accompanying base prospectus is not an offer to sell these securities nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration Statement 333-155537

Subject to Completion, Dated November 2, 2009,
Preliminary Prospectus Supplement to Prospectus dated December 4, 2008

1,900,000 Common Units
Representing Limited Partner Interests

HOLLY ENERGY PARTNERS, L.P.

Holly Energy Partners, L.P. is offering 1,900,000 common units to be sold in this offering.

The common units are listed on the New York Stock Exchange under the symbol HEP . The last reported sale price of the common units on October 30, 2009 was $38.30 per common unit.

See Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, as amended, and on page S-14 of this prospectus supplement to read about factors you should consider before buying common units.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying base prospectus. Any representation to the contrary is a criminal offense.

	Per Common Unit	Total
Initial public offering price	$	$
Underwriting discount	$	$

Proceeds, before expenses, to Holly Energy Partners, L.P.	$	$

To the extent that the underwriters sell more than 1,900,000 common units, the underwriters have the option to purchase up to an additional 285,000 common units from Holly Energy Partners, L.P. at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the common units against payment in New York, New York on November , 2009.

Goldman, Sachs & Co. **UBS Investment Bank**

SMH Capital

Prospectus Supplement dated November , 2009

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This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of and other information relating to this offering. The second part is the accompanying base prospectus, which gives more general information, some of which may not apply to this offering. Generally, when we refer only to the prospectus , we are referring to both parts combined. If information varies between the prospectus supplement and the accompanying base prospectus, you should rely on the information in this prospectus supplement.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement and the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement is an offer to sell only the common

units offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.

SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement or the documents incorporated by reference herein. It does not contain all of the information that you should consider before investing in the common units. You should carefully read the entire prospectus supplement, the accompanying base prospectus and the other documents incorporated by reference to understand fully the terms of the common units, as well as the tax and other considerations that are important in making your investment decision. Unless otherwise indicated, the information in this prospectus supplement assumes no exercise of the underwriters over-allotment option.

You should read Risk Factors beginning on page S-14 of this prospectus supplement as well as the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2008, as amended, incorporated by reference herein for more information about important factors that you should consider before purchasing the common units. References in this prospectus supplement to Holly Energy Partners , we , our , us , or similar terms refer either to Holly Energy Partners, L.P. or to Holly Energy Partners, L.P. and its subsidiaries collectively, as the context requires.

Holly Energy Partners, L.P.

Holly Energy Partners, L.P. is a Delaware limited partnership engaged principally in the business of operating a system of refined product and crude oil pipelines, storage tanks, distribution terminals and loading rack assets in west Texas, New Mexico, Utah, Oklahoma, Arizona, Idaho, and Washington. We generate revenues by charging tariffs for transporting refined product and crude oil through our pipelines and by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at our terminals. We do not take ownership of products that we transport or terminal, and therefore, we are not directly exposed to changes in commodity prices. We serve refineries of Holly Corporation in New Mexico and Utah under four long-term pipeline, throughput, tankage and/or terminal agreements with Holly Corporation. The first of these agreements relates to the pipelines and terminals contributed to us by Holly Corporation at the time of our initial public offering and expires in 2019. The second of these agreements relates to the intermediate pipelines acquired from Holly Corporation in July 2005 that serve Holly Corporation s Lovington and Artesia, New Mexico refinery facilities and, as amended, expires in 2024. The third agreement relates to the crude pipelines and tankage assets acquired from Holly Corporation in February 2008 and expires in 2023. The fourth agreement relates to the truck and rail loading/unloading facilities located at Holly Corporation s Tulsa, Oklahoma refinery and expires in 2024. Holly Corporation controls our general partner and owns a 41% interest in us (before we issue the common units offered hereby or the common units to be issued to Sinclair Tulsa Refining Company See Recent Developments below), including the 2% general partner interest. We also serve Alon USA, Inc. s, or Alon s, Big Spring Refinery in Texas under a pipelines and terminals agreement expiring 2020. Our assets currently include:

Pipelines:

- approximately 820 miles of refined product pipelines, including 340 miles of leased pipelines, that transport gasoline, diesel and jet fuel principally from Holly Corporation s Navajo Refinery in New Mexico to its customers in the metropolitan and rural areas of Texas, New Mexico, Arizona, Colorado, Utah and northern Mexico;
- approximately 510 miles of refined product pipelines that transport refined products from Alon s Big Spring Refinery in Texas to its customers in Texas and Oklahoma;

three 65-mile pipelines that transport intermediate feedstocks and crude oil from Holly Corporation s Lovington, New Mexico refinery facilities to Holly Corporation s Artesia, New Mexico refinery facilities;

approximately 860 miles of crude oil trunk, gathering and lease connection pipelines which service Holly Corporation s Lovington and Artesia refining facilities;

approximately 10 miles of crude oil and refined product pipelines that support Holly Corporation s Woods Cross Refinery near Salt Lake City, Utah;

a 70% interest in Rio Grande Pipeline Company (Rio Grande), a joint venture that owns a 249-mile refined product pipeline that transports liquid petroleum gases, or LPGs, from west Texas to the Texas/Mexico border near El Paso for further transport into northern Mexico (see Recent Developments regarding the sale of our 70% interest in Rio Grande, which is expected to close in December 2009); and

a 25% interest in the joint venture that owns and operates the Salt Lake City Pipeline, a new 95 mile intrastate crude oil pipeline system which transports crude oil into the Salt Lake City, Utah area from the Utah terminus of the Frontier Pipeline as well as crude oil flowing from Wyoming and Utah via Plains All American Pipeline, L.P. s Rocky Mountain Pipeline.

Refined Product Terminals and Refinery Tankage:

four refined product terminals, located in El Paso, Texas; Moriarty and Bloomfield, New Mexico; and Tucson, Arizona, with an aggregate capacity of approximately 1.0 million barrels, that are integrated with our refined product pipeline system that serves Holly Corporation s Navajo Refinery;

three refined product terminals (two of which are 50% owned), located in Burley and Boise, Idaho and Spokane, Washington, with an aggregate capacity of approximately 500,000 barrels, that serve third-party common carrier pipelines;

one refined product terminal near Mountain Home, Idaho with a capacity of 120,000 barrels, that serves a nearby United States Air Force Base;

two refined product terminals, located in Wichita Falls and Abilene, Texas, and one tank farm in Orla, Texas with aggregate capacity of 480,000 barrels, that are integrated with our refined product pipelines that serve Alon s Big Spring Refinery;

two refined product truck loading racks, one located within Holly Corporation s Navajo Refinery that is permitted to load over 40,000 barrels per day (bpd) of light refined products, and one located within Holly Corporation s Woods Cross Refinery, that is permitted to load over 25,000 bpd of light refined products;

a Roswell, New Mexico jet fuel terminal leased through September 2011;

on-site crude oil tankage at Holly Corporation s Navajo and Woods Cross Refineries having an aggregate storage capacity of approximately 600,000 barrels; and

truck and rail loading/unloading facilities located at Holly Corporation s Tulsa, Oklahoma refinery.

Recent Developments

On October 19, 2009, our wholly-owned subsidiary, HEP Tulsa LLC, entered into an asset sale and purchase agreement with Sinclair Tulsa Refining Company, or Sinclair, pursuant to which HEP Tulsa LLC will purchase tankage, loading racks and pipeline assets at Sinclair s refining facility in Tulsa, Oklahoma for a total purchase price of $75 million, consisting of 1,373,609 of our common units to be issued by us to Sinclair (which under the asset sale and purchase agreement are valued at $53.5 million based on the average price of common units during the 20 trading day period prior to the date of the asset sale and purchase agreement) and $21.5 million in cash from HEP Tulsa LLC. We intend to use a portion of the net proceeds of this offering to fund HEP Tulsa LLC s payment of the $21.5 million cash portion of the total purchase price. For more detailed information regarding the use of proceeds from this offering, see Use of Proceeds .

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We refer to the acquisition by HEP Tulsa LLC of tankage, loading racks and pipeline assets from Sinclair as the acquisition of the Sinclair logistics assets.

Simultaneously with the acquisition of the Sinclair logistics assets and under the same asset sale and purchase agreement, Holly Refining & Marketing-Tulsa LLC, an affiliate of our general partner, will purchase Sinclair s refining facility in Tulsa, Oklahoma for an aggregate consideration of $128.5 million, consisting of $74 million of Holly Corporation common stock to be issued by Holly Corporation to Sinclair and $54.5 million in cash from Holly Corporation. In addition, Holly Refining & Marketing-Tulsa LLC will purchase the inventory at the site.

In connection with the closing of the acquisition of the Sinclair logistics assets, we anticipate that Holly Refining & Marketing-Tulsa LLC will enter into a 15 year pipelines, tankage and loading rack throughput agreement with HEP Tulsa LLC, to pay us, subject to various adjustments:

- a pipeline tariff of $.10 for each barrel of refined products moved on the pipelines acquired in connection with the Sinclair logistics assets with a guaranteed minimum throughput of 60,000 bpd of crude oil or refined products moved;

- a tankage base tariff of $.30 for each barrel of refined products stored using tankage acquired in connection with the Sinclair logistics assets with a guaranteed minimum throughput of 80,000 bpd of refined products, $.10 per barrel for volumes in excess of 80,000 bpd to 120,000 bpd, and $.22 per barrel for volumes in excess of 120,000 bpd; and

- a loading racks tariff of $.30 for each barrel of refined products, LPG, and heavy products loaded over the loading racks acquired in connection with the Sinclair logistics assets with a guaranteed minimum throughput of 26,000 bpd.

The assets acquired from Sinclair include tanks with a combined capacity of 1,362,500 bbls of refined products, a light products truck loading rack, a propane truck loading rack, and an asphalt truck loading rack, as well as refined products delivery pipelines which are connected to common carrier pipelines serving the Sinclair Tulsa refinery.

On October 19, 2009, BP Plc, our Rio Grande joint venture partner, consented to an agreement between us, HEP Navajo Southern, L.P. (one of our wholly-owned subsidiaries) and Enterprise Products Operating LLC (Enterprise) under which we have agreed to sell HEP Navajo Southern, L.P. s 70% ownership interest in Rio Grande to Enterprise for $35.0 million. We expect the closing of this transaction to occur in December 2009.

On August 18, 2009, 7,000,000 of our subordinated units held by a subsidiary of Holly Corporation converted into an equal number of our common units. Holly Corporation has the right to cause us to register for resale under the Securities Act of 1933 those common units held by Holly Corporation.

On August 1, 2009, we acquired from Holly Refining & Marketing-Tulsa LLC, for a purchase price of $17.5 million, certain truck and rail loading/unloading facilities located at Holly Corporation s Tulsa, Oklahoma refinery.

Competitive Strengths

We believe our business possesses the following competitive strengths:

We operate a substantial part of our business under long-term contracts, which provides significant stability to our future cash flows. We conduct a significant portion of our operations pursuant to long-term contracts, which we believe will enhance the stability and predictability of our revenues and cash flows. Revenues from contracts extending beyond one year constituted approximately 88% of our revenues for the fiscal year ended December 31, 2008. We have entered into four long-term contracts with Holly Corporation expiring in 2019, 2023, and two expiring in 2024, not including the contract with Holly Corporation relating to the Sinclair logistics assets. We also have

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long-term contracts with Alon. The long-term contracts representing a majority of our revenue stream from Alon expire between 2018 and 2020. In addition, where we operate under contracts with terms of less than one year, we believe our long-standing customer relationships will lead to ongoing business and the renewal of such short-term contracts.

Our assets are efficient and well maintained. We continually invest in the maintenance and integrity of our assets, including state-of-the-art internal mechanical integrity inspection and repair programs to comply with federal regulations. Since 1998, we have inspected and, to the extent required, repaired 100% of the total miles of the pipelines that we owned upon our initial public offering in 2004, 100% of the intermediate pipelines acquired from Holly Corporation in 2005 and 100% of the pipelines acquired from Alon in 2005 using internal inspection devices known as smart pigs , which have instruments capable of detecting cracks, line erosion and other structural deficiencies. The operating pressures of these lines have been hydrotested as required by the Department of Transportation. All of our existing pipeline and terminal assets are operated via satellite communications systems from our control center in Artesia, New Mexico. The control center operates with state-of-the-art computer systems designed to continuously monitor real time operational data, including product quantities, flow rates and pressures.

We have a strategic relationship with Holly Corporation, which provides us with access to stable volumes, growth opportunities and management expertise. A substantial majority of our existing petroleum pipelines are directly linked to Holly Corporation s refineries and provide Holly Corporation with the safest and most cost-effective means to transport and distribute petroleum products to its major markets. Following our acquisition from Holly Corporation of certain pipeline and tankage assets effective March 1, 2008, Holly Corporation now transports through our petroleum pipelines or loading racks 100% of the refined products from its Navajo Refinery and its Woods Cross Refinery, 100% and 15% of the crude oil coming into its Navajo Refinery and Woods Cross Refinery, respectively, and 100% of the intermediate products between Navajo Refinery s Artesia and Lovington facilities. Holly Corporation has agreed to continue using our assets to transport, terminal and store petroleum products pursuant to three separate pipelines and terminals agreements expiring in 2019, 2023 and 2024. In addition, in connection with our acquisition from Holly Corporation of certain truck and rail loading/unloading facilities located at Holly Corporation s existing Tulsa, Oklahoma refinery, Holly Corporation has agreed to use these facilities with a minimum guaranteed throughput of 12,500 bpd for 15 years. Furthermore, Holly Corporation has a significant economic interest to see that our pipeline and terminal assets are managed in the best interests of unitholders because it and its affiliates own the 2% general partner interest and a 39% limited partner interest in us (before we issue the common units offered hereby and the issuance of common units to Sinclair in connection with the acquisition of the Sinclair logistics assets) and certain incentive distribution rights. Our recent investment in the Salt Lake City Pipeline, and our investment in the previously announced UNEV Pipeline (which will run from Salt Lake City, Utah to Las Vegas, Nevada), assuming in the case of the UNEV Pipeline that such pipeline is completed and we exercise our option to purchase Holly Corporation s 75% interest in such pipeline, along with our proposed purchase of the Sinclair logistics assets, will serve to further strengthen our relationship with Holly Corporation.

We are contractually and strategically positioned to benefit from growth initiatives by Holly Corporation. In the past four years, we benefited from Holly Corporation s expansions of its Navajo and Woods Cross Refineries as well as Holly Corporation s purchase of Sunoco Inc. s Tulsa refinery. In the event that Holly Corporation further expands its Navajo or Woods Cross Refineries, we believe that the additional production may also be transported, stored and distributed through our existing pipelines and terminals. We recently benefited from two such projects. On July 22, 2008, Holly Corporation announced an agreement by one of its subsidiaries to transport crude oil on Centurion Pipeline L.P. s pipeline from Cushing, Oklahoma to Centurion s Slaughter station in west Texas. In connection with such agreement, Holly Corporation approved capital expenditures of up to $90.0 million to build the necessary infrastructure, including a 70-mile pipeline from Centurion s Slaughter station in west Texas to Lovington, New Mexico that was recently completed and is

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expected to be fully operational in November 2009, a recently completed 37-mile pipeline project that connects our Artesia crude gathering system to Holly Corporation s Lovington facility, and a 65-mile pipeline from Lovington to Artesia, New Mexico which has been completed and was recently acquired by us. Under provisions of our omnibus agreement with Holly Corporation we will have an option to purchase Holly Corporation s investment in these additional transportation assets at a purchase price to be negotiated with Holly Corporation. On August 1, 2009, after Holly Corporation s purchase of Sunoco Inc. s Tulsa refinery, we purchased certain truck and rail loading/unloading facilities located at that refinery for a purchase price of $17.5 million. Holly Refining & Marketing-Tulsa LLC entered into a 15-year equipment and throughput agreement with us to pay us a per barrel fee for each barrel loaded or unloaded at the truck and rail loading facilities.

Substantially all of our assets serve markets with above average population growth. Our pipelines and terminals serve our customers marketing operations in the Southwest and Rocky Mountain regions of the United States as well as northern Mexico and the Mid-Continent region. In many of our customers core markets, demand for petroleum products exceeds local production, due in part to population growth rates that are higher than the national average. We expect that the population growth in the states of Texas, New Mexico, Colorado, Utah, Washington, Nevada, Arizona, Idaho, and the Mid-Continent region will result in increased demand for petroleum products shipped on our pipelines and through our terminals.

We have an experienced management team. We benefit from the experience and long-standing industry relationships of our senior management team. Our senior management has an average of over 25 years of experience in the energy industry.

Partnership Structure and Management

As is common with publicly traded limited partnerships and in order to maximize operational flexibility, we conduct our operations through subsidiaries. We have three direct subsidiaries: Holly Energy Finance Corp., Holly Energy Partners Operating, L.P., a limited partnership that conducts all of our operations through itself and its subsidiaries, and HEP Logistics GP, L.L.C., its general partner. Holly Energy Partners Operating, L.P. owns directly or indirectly 100% of the membership or partnership interests in its subsidiaries, other than Rio Grande Pipeline Company, in which it indirectly owns a 70% interest, and SLC Pipeline LLC in which it indirectly owns a 25% interest.

Holly Logistic Services, L.L.C., as the general partner of HEP Logistics Holdings, L.P., our general partner, manages our operations and activities. Neither our general partner nor the board of directors of Holly Logistic Services, L.L.C. are elected by our unitholders. Unlike shareholders in a publicly traded corporation, our unitholders are not entitled to elect the directors of Holly Logistic Services, L.L.C.

The chart on page S-6 depicts the current structure and ownership of Holly Energy Partners, L.P., our operating partnership and its subsidiaries prior to this offering of common units and the issuance of common units to Sinclair in connection with the acquisition of the Sinclair logistics assets.

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The Offering

The summary below describes the principal terms of the common units offered hereby. Certain of the terms and conditions described below are subject to important limitations and exceptions. You should read the full text and more specific details contained elsewhere in this prospectus supplement and in the base prospectus under the heading Description of Our Common Units And Preferred Units .

Common units offered	1,900,000 common units (or 2,185,000 common units if the underwriters over-allotment option is exercised in full).
Units outstanding before this offering	17,582,400 common units and 937,500 Class B subordinated units.
Units outstanding after this offering	19,482,400 common units, or 19,767,400 common units if the underwriters over-allotment option is exercised in full, and 937,500 Class B subordinated units. We will issue an additional 1,373,609 common units to Sinclair as a portion of the aggregate consideration for the acquisition of the Sinclair logistics assets.
Use of proceeds	We will receive net proceeds of approximately $ million from the sale of the 1,900,000 common units we are offering after deducting underwriting discounts but before paying offering expenses, or approximately $ million if the underwriters over-allotment option is exercised in full. We intend to use a portion of the net proceeds of this offering, including any exercise of the underwriters over-allotment option, to fund HEP Tulsa LLC s payment of the $21.5 million cash portion of the $75.0 million total purchase price for the pending acquisition of the Sinclair logistics assets and to pay costs related to that acquisition. We intend to use the remaining net proceeds either to pay a portion of the purchase price for our potential acquisition from Holly Corporation of its investments in two pipeline projects pursuant to our option to purchase those investments at prices to be negotiated with Holly Corporation or, instead, to repay bank debt incurred under our credit agreement, for other potential future acquisitions or for general partnership purposes. If the acquisition of the Sinclair logistics assets does not close, we intend to use the net proceeds of this offering for one or more of the following: to pay for all or substantially all of the purchase price and related costs for the potential acquisitions from Holly Corporation described above, to repay bank debt incurred under our credit agreement, for other potential future acquisitions or for general partnership purposes. For more detailed information regarding the use of proceeds from this offering, see Use of Proceeds .
Cash distributions	Under our partnership agreement, we must distribute all of our cash on hand within 45 days after the end of each quarter, after payment of fees and expenses and the establishment of cash reserves by our general partner in its discretion. We refer to this cash as available cash and we define this term in our partnership agreement.

If cash distributions per common unit exceed $0.50 in any quarter, our general partner will receive, in addition to amounts associated with its 2% general partner interest, increasing percentages, up to 50%, of the cash we distribute

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	in excess of that amount. We refer to the general partner s right to receive such distributions as incentive distribution rights . The most recent cash distribution declared of $0.795 per common unit will provide unitholders and our general partner each with 50% of the marginal percentage interest in distributions. For a description of our cash distribution policy and the incentive distribution rights, please read Cash Distribution Policy in the accompanying base prospectus.
Subordination period	In addition to our common units, we previously issued two separate classes of subordinated units representing limited partnership interests, and the rights of the holders of each class of subordinated units to participate in distributions are subordinated to the rights of the holders of the common units. When the subordination period for any class of subordinated units ends, all remaining subordinated units of such class will convert into common units on a one-for-one basis and will thereafter participate pro rata with the other common units in distributions of available cash. For more information regarding the effects of the end of the subordination period applicable to each class of subordinated units, see the discussion under Cash Distribution Policy Subordination Periods Effect of Expiration of the Subordination Period in the base prospectus accompanying this prospectus supplement. In August 2009, all of the conditions necessary to end the subordination period for the 7,000,000 subordinated units owned by our general partner were met and the units were converted into our common units on a one-for-one basis. In addition, under our partnership agreement, because the subordination period for this class of subordinated units has expired, we may issue an unlimited number of limited partner interests of any type without the approval of our unitholders. With respect to the 937,500 subordinated units held by Alon USA (all of which are designated as our Class B subordinated units), the subordination period will end on the last day of any quarter ending on or after March 31, 2010 if Alon USA has not defaulted on its minimum volume commitment payment obligations under our pipelines and terminals agreement with Alon USA for certain prior periods, subject to certain grace periods. In addition, the subordination period for units held by Alon USA will terminate if our general partner is removed without cause.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through the record date for distributions with respect to the quarter ending December 31, 2011, you will be allocated, on a cumulative basis, an amount of federal taxable income for the taxable years 2009 through 2011 that will be 25% or less of the cash distributed with respect to such common units for that period. Please read Certain United States Federal Income Tax Considerations in this prospectus supplement for the basis of this estimate.
New York Stock Exchange Symbol	HEP

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Summary Selected Historical Financial and Operating Data

The table on the following page sets forth summary selected historical financial and operating data as of and for each of the years ended December 31, 2006, 2007 and 2008 and for the nine months ended September 30, 2008 and 2009. The summary financial data presented is derived from (i) the audited financial statements of Holly Energy Partners, L.P., which are included in our Annual Report on Form 10-K for the year ended December 31, 2008, except that the information presented herein has been adjusted to present the impact of our adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51 and Emerging Issues Task Force Issue No. 07-4, Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships , both of which were effective for us as of January 1, 2009 and (ii) the unaudited financial statements included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009. The results of operations for the nine months ended September 30, 2009 are not necessarily indicative of the operating results for the entire year or any future period. Our Annual Report on Form 10-K for the year ended December 31, 2008 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 are incorporated herein by reference.

The summary selected historical financial and operating data should be read together with, and is qualified in its entirety by reference to, our historical financial statements and the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations , which are set forth in our Annual Report on Form 10-K for the year ended December 31, 2008 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.

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Summary Selected Historical Financial and Operating Data (continued)

	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	2009 (unaudited)
	(In thousands, except per unit and barrels per day data)				
Statement of Income Data:					
Revenue	$ 89,194	$ 105,407	$ 118,088	$ 83,562	$ 115,470
Operating costs and expenses:					
Operations	28,630	32,911	41,270	30,745	33,332
General and administrative	4,854	5,043	6,377	4,241	4,990
Depreciation and amortization	15,330	14,382	22,889	16,259	19,929
Total operating costs and expenses	48,814	52,336	70,536	51,245	58,251
Operating income	40,380	53,071	47,552	32,317	57,219
Equity in earnings of SLC Pipeline					1,309
SLC Pipeline acquisition costs					(2,500)
Interest expense[(1)]	(13,056)	(13,289)	(21,763)	(14,201)	(16,225)
Interest income	899	533	159	146	10
Gain on sale of assets		298	36	36	
Other Income			996	1,007	65
	(12,157)	(12,458)	(20,572)	(13,012)	(17,341)
Income before income taxes	28,223	40,613	26,980	19,305	39,878
State income tax		(275)	(335)	(237)	(317)
Net income	28,223	40,338	26,645	19,068	39,561
Less noncontrolling interest in net income	680	1,067	1,278	834	1,191
Net income attributable to Holly Energy Partners, L.P.	27,543	39,271	25,367	18,234	38,370
Less general partner interest in net income attributable to Holly Energy Partners, L.P.	1,710	2,932	3,543	2,736	5,163
Limited partners interest in net income attributable to Holly Energy Partners, L.P.	$ 25,833	$ 36,339	$ 21,824	$ 15,498	$ 33,207
Limited partners per unit interest in net income attributable to Holly Energy Partners, L.P. basic and	$ 1.59	$ 2.24	$ 1.32	$ 0.95	$ 1.89

diluted					
Weighted average limited partners units outstanding	16,108	16,108	16,291	16,279	17,546

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Summary Selected Historical Financial and Operating Data (continued)

	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	2009 (unaudited)
	(In thousands, except per unit and barrels per day data)				
Other Financial Data:					
EBITDA	$ 55,030	$ 66,684	$ 70,195	$ 48,785	$ 74,831
Distributable cash flow	$ 47,219	$ 51,012	$ 60,365	$ 43,452	$ 51,677
Distributions to unitholders	$ 43,670	$ 47,974	$ 52,426	$ 38,908	$ 44,393
Cash flows from operating activities	$ 45,853	$ 59,056	$ 63,651	$ 38,090	$ 44,788
Cash flows from investing activities	$ (9,107)	$ (9,632)	$ (213,267)	$ (199,988)	$ (98,978)
Cash flows from financing activities	$ (45,774)	$ (50,658)	$ 144,564	$ 153,695	$ 52,971
Maintenance capital expenditures	$ 1,095	$ 1,863	$ 3,133	$ 2,418	$ 2,262
Expansion capital expenditures	8,012	8,094	39,170	26,606	25,216
Total capital expenditures	$ 9,107	$ 9,957	$ 42,303	$ 29,024	$ 27,478
Operating Data (barrels per day):					
Pipeline throughput	189,584	205,167	291,814	272,966	345,769
Refined product terminal throughput	161,487	165,367	142,276	139,684	149,842
Balance Sheet Data (at period end):					
Net property, plant and equipment	$ 160,484	$ 158,600	$ 290,284	$ 283,628	$ 349,062
Total assets	245,771	238,904	439,688	430,086	518,965
Long-term debt	180,660	181,435	355,793	354,522	429,819
Total liabilities	198,582	200,348	431,568	402,127	459,896
Total equity	47,189	38,556	8,120	27,959	59,069

(1) Includes amortization of discount and deferred debt issuance costs.

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Non-GAAP Financial Measures

Earnings before interest, taxes, depreciation and amortization (EBITDA) is calculated as net income attributable to Holly Energy Partners, L.P. plus (i) interest expense net of interest income, (ii) state income tax and (iii) depreciation and amortization. EBITDA is not a calculation based upon U.S. GAAP. EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors and commercial banks, to assess:

- the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
- the ability of our assets to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners;
- our operating performance and return on invested capital as compared to those of other companies in the pipelines and terminals business, without regard to financing methods, capital structure or historical cost basis; and
- our compliance with certain financial covenants included in our debt agreements.

EBITDA should not be considered an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with U.S. GAAP. EBITDA excludes some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Therefore, EBITDA as presented below may not be comparable to similarly titled measures of other companies.

The following table presents a reconciliation of EBITDA to the most directly comparable GAAP financial measure for each of the periods indicated.

	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
			(In thousands)		
Reconciliation of EBITDA to net income attributable to Holly Energy Partners, L.P.:					
Net income attributable to Holly Energy Partners, L.P.	$ 27,543	$ 39,271	$ 25,367	$ 18,234	$ 38,370
Add (Subtract):					
Depreciation and amortization	15,330	14,382	22,889	16,259	19,929
Amortization of discount and deferred debt issuance costs	968	1,008	1,002	739	529
Increase in interest expense change in fair value of interest rate swaps			2,282		300

Interest expense		12,088		12,281		18,479		13,462		15,396
State income tax				275		335		237		317
		55,929		67,217		70,354		48,931		74,841
Less:										
Interest income		899		533		159		146		10
EBITDA	$	55,030	$	66,684	$	70,195	$	48,785	$	74,831

Distributable cash flow is used as a supplemental financial measure by our management and is presented here because it is a widely accepted financial indicator used by investors to compare partnership performance. We believe that this measure provides investors an enhanced perspective of the operating performance of our assets and the cash our business is generating.

Distributable cash flow is not a calculation based upon U.S. GAAP. However, the amounts included in the calculation are derived from amounts separately presented in our consolidated financial statements, with the exception of maintenance capital expenditures. Distributable cash flow should not be considered in isolation or as an alternative to net income or operating income, as an indication of our operating performance or as an alternative to operating cash flow as a measure of liquidity. Distributable cash flow is not necessarily comparable to similarly titled measures of other companies.

The following table presents a reconciliation of distributable cash flow to the most directly comparable GAAP financial measure for each of the periods indicated.

	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
			(In thousands)		
Reconciliation of Distributable cash flow to net income attributable to Holly Energy Partners, L.P.:					
Net income attributable to Holly Energy Partners, L.P.	$ 27,543	$ 39,271	$ 25,367	$ 18,234	$ 38,370
Add depreciation and amortization	15,330	14,382	22,889	16,259	19,929
Add amortization of discount and deferred debt issuance costs	968	1,008	1,002	739	529
Add (subtract) increase (decrease) in deferred revenue	4,473	(1,786)	11,958	10,638	(8,076)
Add increase in interest expenses change in fair value of interest rate swaps			2,282		300
Add equity in excess cash flows over earnings of SLC Pipeline					387
Add SLC Pipeline acquisition costs(1)					2,500
Subtract maintenance capital expenditures(2)	(1,095)	(1,863)	(3,133)	(2,418)	(2,262)
Distributable cash flow	$ 47,219	$ 51,012	$ 60,365	$ 43,452	$ 51,677

(1) Under provisions of accounting standards codification (ASC) topic Business Combinations (previously statement of financial accounting standards (SFAS) No. 141(R)), effective January 1, 2009, we were required to expense rather than capitalize acquisition costs of $2.5 million paid to Holly Corporation associated with our joint venture agreement with Plains All American Pipeline, L.P. that closed in March 2009. As these costs directly related to our interest in the new joint venture pipeline and are similar to expansion capital expenditures, we have added

back those costs to arrive at distributable cash flow.

(2) Maintenance capital expenditures represent capital expenditures made to replace partially or fully depreciated assets in order to maintain the existing operating capacity of our assets and to extend their useful lives. Maintenance capital expenditures include expenditures required to maintain equipment reliability, tankage and pipeline integrity, and safety and to comply with environmental regulations.

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RISK FACTORS

This offering involves a high degree of risk, including the risks described below and other risks described in our Annual Report on Form 10-K for the year ended December 31, 2008, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009, June 30, 2009, and September 30, 2009, and the risks described in any other documents incorporated by reference into this prospectus. You should carefully consider all of these risks together with all of the other information included in this prospectus and the documents incorporated by reference herein before deciding to invest in the common units offered hereby. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially and adversely affected. In that case, our ability to pay distributions on our common units may be reduced, the trading price of our securities could decline, and you could lose all or part of your investment.

We depend on Holly Corporation and particularly its Navajo Refinery for a majority of our revenues; if those revenues were significantly reduced or if Holly Corporation s financial condition materially deteriorated, there would be a material adverse effect on our results of operations.

For the year ended December 31, 2008, Holly Corporation accounted for 72% of the revenues of our petroleum product and crude pipelines and 70% of the revenues of our terminals and truck loading racks. We expect to continue to derive a majority of our revenues from Holly Corporation for the foreseeable future, and the percentage of revenues from Holly Corporation are expected to increase following the acquisition of the Sinclair logistics assets and the disposition of our interest in the Rio Grande pipeline. If Holly Corporation satisfies only its minimum obligations under the four pipeline, throughput, tankage and/or terminal agreements we entered into with Holly Corporation or is unable to meet its minimum annual payment commitment for any reason, including due to prolonged downtime or a shutdown at the Navajo Refinery, the Woods Cross Refinery or the Tulsa refinery, our revenues and cash flow would decline.

Any significant curtailing of production at the Navajo Refinery could, by reducing throughput in our pipelines and terminals, result in our realizing materially lower levels of revenues and cash flow for the duration of the shutdown. For the year ended December 31, 2008, production from the Navajo Refinery accounted for 67% of the throughput volumes transported by our refined product and crude pipelines. The Navajo Refinery also received 100% of the petroleum products shipped on our intermediate pipelines. Operations at the Navajo Refinery could be partially or completely shut down, temporarily or permanently, as the result of:

- competition from other refineries and pipelines that may be able to supply the refinery s end-user markets on a more cost-effective basis;
- operational problems such as catastrophic events at the refinery, labor difficulties or environmental proceedings or other litigation that compel the cessation of all or a portion of the operations at the refinery;
- planned maintenance or capital projects;
- increasingly stringent environmental laws and regulations, such as the U.S. Environmental Protection Agency s gasoline and diesel sulfur control requirements that limit the concentration of sulfur in motor gasoline and diesel fuel for both on-road and non-road usage as well as various state and federal emission requirements that may affect the refinery itself and potential future climate change regulations;

an inability to obtain crude oil for the refinery at competitive prices; or a general reduction in demand for refined products in the area due to:

a local or national recession or other adverse economic condition that results in lower spending by businesses and consumers on gasoline and diesel fuel;

higher gasoline prices due to higher crude oil prices, higher taxes or stricter environmental laws or regulations; or

a shift by consumers to more fuel-efficient or alternative fuel vehicles or an increase in fuel economy, whether as a result of technological advances by manufacturers, legislation either mandating or encouraging higher fuel economy or the use of alternative fuel or otherwise.

The magnitude of the effect on us of any shutdown would depend on the length of the shutdown and the extent of the refinery operations affected by the shutdown. We have no control over the factors that may lead to a shutdown or the measures Holly Corporation may take in response to a shutdown. Holly Corporation makes all decisions at the Navajo Refinery concerning levels of production, regulatory compliance, refinery turnarounds (planned shutdowns of individual process units within a refinery to perform major maintenance activities), labor relations, environmental remediation, emission control, and capital expenditures; is responsible for all related costs; and is under no contractual obligation to us to maintain operations at the Navajo Refinery.

Furthermore, Holly Corporation s obligations under our three pipeline, tankage and/or terminal agreements with Holly Corporation, would be temporarily suspended during the occurrence of a force majeure that renders performance impossible with respect to an asset for at least 30 days. If such an event were to continue for a year, we or Holly Corporation could terminate the agreements. The occurrence of any of these events could reduce our revenues and cash flows.

We depend on Alon and particularly its Big Spring Refinery for a substantial portion of our revenues; if those revenues were significantly reduced, there would be a material adverse effect on our results of operations.

For the year ended December 31, 2008, Alon accounted for 16% of the combined revenues of our petroleum product and crude pipelines and of our terminals and truck loading racks, including revenues we received from Alon under a capacity lease agreement.

On February 18, 2008, Alon experienced an explosion and fire at its Big Spring Refinery that resulted in the shutdown of production. In early April 2008, Alon reopened its Big Spring Refinery and resumed production at one-half of refinery capacity until late September when production was restored to full capacity. Lost production and reduced operations attributable to this incident resulted in a significant decrease in third party shipments and related revenues on our refined product pipelines during the first nine months of 2008. As a result of related contractual minimum commitments and resulting shortfall billings, the incidents did not materially affect our distributable cash flow.

Another decline in production at Alon s Big Spring Refinery would materially reduce the volume of refined products we transport and terminal for Alon. As a result, our revenues would be materially adversely affected. The Big Spring Refinery could partially or completely shut down its operations, temporarily or permanently, due to factors affecting its ability to produce refined products or for planned maintenance or capital projects. Such factors would include the factors discussed above under the discussion of risk factors for the Navajo Refinery.

The magnitude of the effect on us of any shutdown depends on the length of the shutdown and the extent of the refinery operations affected. We have no control over the factors that may lead to a shutdown or the measures Alon may take in response to a shutdown. Alon makes all decisions and is responsible for all costs at the Big Spring Refinery concerning levels of production, regulatory compliance, refinery turnarounds, labor relations, environmental remediation, emission control, and capital expenditures.

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In addition, under the Alon pipelines and terminals agreement, if we are unable to transport or terminal refined products that Alon is prepared to ship, then Alon has the right to reduce its minimum volume commitment to us during the period of interruption. If a force majeure event occurs beyond the control of either of us, we or Alon could terminate the Alon pipelines and terminals agreement after the expiration of certain time periods. The occurrence of any of these events could reduce our revenues and cash flows.

Our leverage may limit our ability to borrow additional funds, comply with the terms of our indebtedness or capitalize on business opportunities.

As of September 30, 2009, the principal amount of our total outstanding debt was $430.0 million. See Capitalization for additional information. Our results of operations, cash flows and financial position could be adversely affected by significant increases in interest rates above current levels. Various limitations in our Credit Agreement and the indentures for our outstanding 61/4% senior notes due 2015 may reduce our ability to incur additional debt, to engage in some transactions and to capitalize on business opportunities. Any subsequent refinancing of our current indebtedness or any new indebtedness could have similar or greater restrictions.

Our leverage could have important consequences. We will require substantial cash flow to meet our payment obligations with respect to our indebtedness. Our ability to make scheduled payments, to refinance our obligations with respect to our indebtedness or our ability to obtain additional financing in the future will depend on our financial and operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors. We believe that we will have sufficient cash flow from operations and available borrowings under our Credit Agreement to service our indebtedness. However, a significant downturn in our business or other development adversely affecting our cash flow could materially impair our ability to service our indebtedness. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to refinance all or a portion of our debt or sell assets. We cannot assure you that we would be able to refinance our existing indebtedness at maturity or otherwise or sell assets on terms that are commercially reasonable.

The instruments governing our debt contain restrictive covenants that may prevent us from engaging in certain beneficial transactions. The agreements governing our debt generally require us to comply with various affirmative and negative covenants including the maintenance of certain financial ratios and restrictions on incurring additional debt, entering into mergers, consolidations and sales of assets, making investments and granting liens. Additionally, our contribution agreements with Alon, and our purchase and contribution agreements with Holly Corporation with respect to the intermediate pipelines and the crude pipelines and tankage assets, restrict us from selling the pipelines and terminals acquired from Alon or Holly Corporation, as applicable, and from prepaying more than $30.0 million of our outstanding 61/4% senior notes due 2015 until 2015 and any of the $171.0 million borrowed under the Credit Agreement for the purchase of the crude pipelines and tankage assets until 2018, subject to certain limited exceptions. Our leverage may adversely affect our ability to fund future working capital, capital expenditures and other general partnership requirements, future acquisitions, construction or development activities, or to otherwise fully realize the value of our assets and opportunities because of the need to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness or to comply with any restrictive terms of our indebtedness. Our leverage may also make our results of operations more susceptible to adverse economic and industry conditions by limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate and may place us at a competitive disadvantage as compared to our competitors that have less debt.

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We may not be able to obtain funding on acceptable terms or at all because of volatility and uncertainty in the credit and capital markets. This may hinder or prevent us from meeting our future capital needs.

While the domestic capital markets have shown signs of improvement in 2009, global financial markets and economic conditions have been, and continue to be, disrupted and volatile due to a variety of factors, including significant write-offs in the financial services sector, declining consumer confidence, increased unemployment, geopolitical issues, and the current weak economic conditions. In addition, the fixed-income markets have experienced periods of extreme volatility which negatively impacted market liquidity conditions. As a result, the cost of raising money in the debt and equity capital markets has increased volatility, while the availability of funds from those markets has diminished significantly at times. In particular, as a result of concerns about the stability of financial markets generally and the solvency of lending counterparties specifically, the cost of obtaining money from the credit markets generally may increase as many lenders and institutional investors increase interest rates, enact tighter lending standards, refuse to refinance existing debt on similar terms or at all and reduce, or in some cases cease, to provide funding to borrowers. In addition, lending counterparties under existing revolving credit facilities and other debt instruments may be unwilling or unable to meet their funding obligations. Due to these factors, we cannot be certain that new debt or equity financing will be available on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due. Moreover, without adequate funding, we may be unable to execute our growth strategy, complete future acquisitions or announced and future pipeline construction projects, take advantage of other business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our revenues and results of operations.

We may not be able to fully execute our growth strategy if we encounter illiquid capital markets or increased competition for investment opportunities.

Our strategy contemplates growth through the development and acquisition of crude, intermediate and refined products transportation and storage assets while maintaining a strong balance sheet. This strategy includes constructing and acquiring additional assets and businesses to enhance our ability to compete effectively and diversifying our asset portfolio, thereby providing more stable cash flow. We regularly consider and enter into discussions regarding, and are currently contemplating and/or pursuing, potential joint ventures, stand alone projects or other transactions that we believe will present opportunities to realize synergies, expand our role in our chosen businesses and increase our market position.

We will require substantial new capital to finance the future development and acquisition of assets and businesses. Any limitations on our access to capital will impair our ability to execute this strategy. If the cost of such capital becomes too expensive, our ability to develop or acquire accretive assets will be limited. We may not be able to raise the necessary funds on satisfactory terms, if at all. The primary factors that influence our cost of equity include market conditions, fees we pay to underwriters and other offering costs, which include amounts we pay for legal and accounting services. The primary factors influencing our cost of borrowing include interest rates, credit spreads, covenants, underwriting or loan origination fees and similar charges we pay to lenders.

In addition, we are experiencing increased competition for the types of assets and businesses we have historically purchased or acquired. Increased competition for a limited pool of assets could result in our losing to other bidders more often or acquiring assets at less attractive prices. Either occurrence would limit our ability to fully execute our growth strategy. Our inability to execute our growth strategy may materially adversely affect our ability to maintain or pay higher distributions in the future.

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USE OF PROCEEDS

We will receive net proceeds of approximately $ million from the sale of the 1,900,000 common units we are offering after deducting underwriting discounts but before paying offering expenses, or approximately $ million if the underwriters over-allotment option is exercised in full.

We intend to use a portion of the net proceeds of this offering, including any exercise of the underwriters over-allotment option, to fund HEP Tulsa LLC s payment of the $21.5 million cash portion of the $75.0 million total purchase price for the pending acquisition of the Sinclair logistics assets and to pay costs related to that acquisition. We intend to use the remaining net proceeds either to pay a portion of the purchase price for our potential acquisition from Holly Corporation of its investments in two pipeline projects (a 70-mile pipeline from Centurion Pipeline L.P. s Slaughter station in west Texas to Lovington, New Mexico and a 37-mile pipeline that connects our Artesia crude gathering system to Holly Corporation s Lovington facility) pursuant to our option to purchase those investments at prices to be negotiated with Holly Corporation or, instead, to repay bank debt incurred under our credit agreement, for other potential future acquisitions or for general partnership purposes.

The pending acquisition of the Sinclair logistics assets is subject to customary closing conditions, including regulatory approval. If that acquisition does not close, we intend to use the net proceeds of this offering for one or more of the following: to pay for all or substantially all of the purchase price and related costs for our potential acquisitions from Holly Corporation of its investments in the two pipeline projects described above, to repay bank debt incurred under our credit agreement, for other potential future acquisitions or for general partnership purposes. For more information regarding the acquisition of the Sinclair logistics assets, see Recent Developments .

The bank debt that may be repaid with the net proceeds of this offering was incurred primarily to fund capital expenditures, including the acquisition from Holly Corporation of a newly constructed intermediate pipeline from their Lovington facility to their Artesia, New Mexico facility in June 2009 for $34.2 million and the truck and rail loading/unloading facilities at Holly Corporation s Tulsa refinery in August 2009 for $17.5 million. 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 Credit Agreement) to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in the Credit Agreement). The Credit Agreement matures on August 27, 2011. At September 30, 2009, we had $245 million of borrowings outstanding under our credit agreement.

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CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2009:

- on a historical basis; and
- as adjusted to give effect to
  - the sale of 1,900,000 common units offered hereby at an assumed public offering price of $38.30 per common unit, the last reported sales price of our common units on the New York Stock Exchange on October 30, 2009, not including estimated offering expenses and underwriting discounts and commissions;
  - the use of net proceeds from this offering to fund HEP Tulsa LLC s payment of the $21.5 million cash portion of the $75.0 million total purchase price for the acquisition of the Sinclair logistics assets and to pay costs related to that acquisition; and
  - the issuance by us to Sinclair of 1,373,609 of our common units as payment of the remainder of the $75.0 million total purchase price for the acquisition of the Sinclair logistics assets.

This table should be read in conjunction with our financial statements (including the accompanying notes) and Management s Discussion and Analysis of Financial Condition and Results of Operations set forth in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 incorporated by reference in this prospectus supplement. The table does not reflect the application of any proceeds of this offering for any purpose other than in connection with the acquisition of the Sinclair logistics assets.

	As of September 30, 2009	
	Actual	As Adjusted
	(In thousands, unaudited)	
Cash and cash equivalents	$ 4,050	$ 57,897
Debt:		
Revolving credit agreement	$ 245,000	$ 245,000(1)
61/4% senior notes due 2015	184,819(2)	184,819
Total debt	429,819	429,819
Equity:		
Common units	136,746	263,016
Class B subordinated units	21,054	21,054
General partner interest	(99,359)	(96,782)(3)
Accumulated other comprehensive loss	(10,181)	(10,181)
Noncontrolling interest	10,809	10,809
Total equity	59,069	187,916

Total capitalization	$ 488,888	$ 617,735

(1) A total of approximately $239.0 million was outstanding under our Credit Agreement as of October 30, 2009.

(2) Principal amount outstanding was $185.0 million as of September 30, 2009.

(3) This number includes an estimated $2.6 million capital contribution by our general partner in connection with this offering and in connection with the issuance of 1,373,609 common units to Sinclair in order to maintain its 2.0% general partner interest in us.

This table does not reflect the issuance of up to 285,000 common units that may be sold to the underwriters upon exercise of their option to purchase additional common units, the proceeds of which will be used in the manner described under Use of Proceeds .

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PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

As of November 2, 2009, there were 17,582,400 common units outstanding, held by approximately 120 holders of record, including our general partner. Our common units are traded on the New York Stock Exchange under the symbol HEP .

As of November 2, 2009, there were 937,500 Class B subordinated units outstanding. These subordinated units are privately held and are not publicly traded.

The following table sets forth, for the periods indicated, the high and low sales prices for our common units, as reported on the New York Stock Exchange, and quarterly cash distributions declared and paid to our unitholders. The last reported closing sales price of our common units on the New York Stock Exchange on October 30, 2009 was $38.30 per common unit.

	Sales Price Ranges High	Sales Price Ranges Low	Cash Distributions Per Unit[(1)]
2009			
Fourth Quarter (through October 30, 2009)	$ 41.65	$ 36.00	
Third Quarter	$ 40.05	$ 31.30	$ 0.795[(2)]
Second Quarter	$ 33.29	$ 23.19	$ 0.785
First Quarter	$ 30.43	$ 20.96	$ 0.775
2008			
Fourth Quarter	$ 33.46	$ 14.93	$ 0.765
Third Quarter	$ 39.16	$ 26.01	$ 0.755
Second Quarter	$ 47.03	$ 37.33	$ 0.745
First Quarter	$ 44.23	$ 36.06	$ 0.735
2007			
Fourth Quarter	$ 48.09	$ 42.04	$ 0.725
Third Quarter	$ 57.24	$ 43.10	$ 0.715
Second Quarter	$ 56.69	$ 46.55	$ 0.705
First Quarter	$ 49.97	$ 39.50	$ 0.690

(1) Represents cash distributions attributable to the quarter and declared or to be paid within 45 days after quarter end to all holders of common, subordinated and general partner units on the record date, including incentive distributions to our general partner.

(2) This distribution will be paid November 13, 2009 to all unitholders of record on November 2, 2009. Accordingly, investors in this offering will not receive this distribution.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The tax consequences to you of an investment in our common units will depend in part on your own tax circumstances. For a discussion of the principal federal income tax considerations associated with our operations and the purchase, ownership and disposition of our common units, please read Material Tax Consequences beginning on page 38 in the accompanying base prospectus, as updated and supplemented by the paragraphs included herein. You are urged to consult with your own tax advisor about the federal, state, local and foreign tax consequences particular to your circumstances.

Tax Opinion of Fulbright & Jaworski L.L.P.

Subject to the representations, assumptions, qualifications and limitations stated in the accompanying prospectus and as modified and supplemented by this prospectus supplement, Fulbright & Jaworski L.L.P. concurs with the statements contained in the section captioned Material Tax Consequences beginning on page 38 of the accompanying base prospectus, to the extent that such statements constitute matters of law and legal conclusions. In rendering its opinion that we will be classified as a partnership and our operating partnership will be disregarded as an entity separate from us for federal income tax purposes, Fulbright & Jaworski L.L.P. (1) has assumed the accuracy of the opinion of Vinson & Elkins L.L.P. to the effect that we were classified as a partnership and our operating partnership was disregarded as an entity separate from us for each taxable year ending prior to January 1, 2009, as stated in the accompanying base prospectus and (2) has relied on factual representations made by us and our general partner including that (a) neither we, the general partner of the operating partnership nor the operating partnership has elected or will elect to be classified as an association taxable as a corporation for federal income tax purposes, and (b) for each taxable year ending after January 1, 2009, at least 90% of our gross income has been and will be income from activities that Fulbright & Jaworski L.L.P. has opined or will opine is qualifying income within the meaning of Section 7704(d) of the Internal Revenue Code, as amended (the Internal Revenue Code).

Partnership Status

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other tax matter affecting us. Instead, we will rely on the opinion of Fulbright & Jaworski, L.L.P. that we will be classified as a partnership for federal income tax purposes.

Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. At the federal level, legislation has been proposed that would eliminate partnership tax treatment for certain publicly traded partnerships. Although such legislation would not apply to us as currently proposed, it could be amended prior to enactment in a manner that does apply to us. We are unable to predict whether any of these changes, or other proposals will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units. Moreover, any such changes may or may not be applied retroactively. At the state level, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. For example, we are required to pay Texas franchise tax at a maximum effective rate of 0.7% of our gross income apportioned to Texas in the prior year. Imposition of such a tax on us by Texas and, if applicable, by any other state will reduce the cash available for distribution to you.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35%, and would likely pay state income tax at varying rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units. Please read Material Tax Consequences Partnership Status in the accompanying base prospectus for additional information regarding our partnership status.

Tax Consequences of Unit Ownership

Tax Rates. In general, the highest marginal federal income tax rate applicable to ordinary income of individuals is currently 35%, and the highest marginal federal income tax rate applicable to long-term capital gains (generally, capital gains on certain assets held for more than 12 months) of individuals is 15%. However, absent new legislation extending the current rates, beginning January 1, 2011, the highest marginal federal income tax rate applicable to ordinary income and long-term capital gains of individuals will increase to 39.6% and 20%, respectively.

Allocation of Income, Gain, Loss and Deduction. In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among our general partner and the unitholders in accordance with their percentage interests in us. At any time that distributions are made to the common units in excess of distributions to the subordinated units, or incentive distributions are made to our general partner, gross income will be allocated to the recipients to the extent of these distributions. If we have a net loss, that loss will be allocated first to our general partner and the unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts and, second, to our general partner.

Specified items of our income, gain, loss and deduction will be allocated to account for (i) any difference between the tax basis and fair market value of our assets that exists at the time of an offering and (ii) any difference between the tax basis and fair market value of any property contributed to us by our general partner and its affiliates that exists at the time of contribution, referred to in this discussion as the Adjusted Property . The effect of these allocations, referred to as Section 704(c) Allocations , to a unitholder purchasing common units from us in an offering will be essentially the same as if the tax bases of our assets were equal to their fair market value at the time of such offering. In the event we issue additional common units or engage in certain other transactions in the future, reverse Section 704(c) Allocations , similar to the Section 704(c) Allocations described above, will be made to our general partner and persons that hold our units immediately prior to such issuance or other transactions to account for the difference between the book basis for purposes of maintaining capital accounts and the fair market value of all property held by us at the time of such future issuance or other transaction. In addition, items of recapture income will be allocated to the extent possible to the unitholder who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner sufficient to eliminate the negative balance as quickly as possible.

An allocation of items of our income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner s book capital account, credited with the fair market value of Adjusted Property, and tax capital account, credited with the tax basis of Adjusted Property, referred to in this discussion as the Book-Tax Disparity , will generally be given effect for federal income tax purposes in determining a partner s share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner s share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including:

- his relative contributions to us;
- the interests of all the partners in profits and losses;
- the interest of all the partners in cash flow; and
- the rights of all the partners to distributions of capital upon liquidation.

Ratio of Taxable Income to Distributions. We estimate that if you purchase common units in this offering and hold those common units through the record date for distributions with respect to the quarter ending December 31, 2011, you will be allocated, on a cumulative basis, an amount of federal taxable income for the taxable years 2009 through 2011, that will be 25% or less of the cash distributed to you with respect to such common units. This estimate is based upon many assumptions regarding our business and operations, including assumptions with respect to capital expenditures, cash flows, net working capital and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and tax reporting positions that we will adopt and with which the IRS could disagree. Accordingly, we cannot assure you that these estimates will prove to be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower than expected, and any differences could be material and could materially affect the value of the common units. For example, the ratio of allocable taxable income to cash distributions to a purchaser of common units in this offering will be greater, and perhaps substantially greater, than our estimate with respect to the period described above if:

- gross income from operations exceeds the amount required to make the current level of quarterly distributions on all units, yet we only distribute the current level of quarterly distributions on all units; or
- we make a future offering of common units and use the proceeds of the offering in a manner that does not produce substantial additional deductions during the period described above, such as to repay indebtedness outstanding at the time of this offering or to acquire property that is not eligible for depreciation or amortization for federal income tax purposes or that is depreciable or amortizable at a rate significantly slower than the rate applicable to our assets at the time of this offering.

Tax-Exempt Organizations and Other Investors.

Ownership of common units by tax-exempt entities and non-U.S. persons raises issues unique to such persons. Such tax exempt entities or non-U.S. persons should consult an independent tax advisor before investing in our common units. Please read Material Tax Consequences Tax-Exempt Organizations and Other Investors in the accompanying base prospectus.

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UNDERWRITING

We and the underwriters named below have entered into an underwriting agreement with respect to the common units being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of common units indicated in the following table. Goldman, Sachs & Co. and UBS Securities LLC are acting as the representatives of the underwriters.

Underwriters	Number of Common Units
Goldman, Sachs & Co.	
UBS Securities LLC	
SMH Capital Inc.	
Total	1,900,000

The underwriters are committed to take and pay for all of the common units being offered, if any are taken, other than the common units covered by the option described below unless and until this option is exercised.

If the underwriters sell more common units than the total number set forth in the table above, the underwriters have an option to buy up to an additional 285,000 common units from us. They may exercise that option for 30 days. If any common units are purchased pursuant to this option, the underwriters will severally purchase common units in approximately the same proportion as set forth in the table above.

The following table shows the per common unit and total underwriting discounts and commissions to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase an additional 285,000 common units.

	No Exercise	Full Exercise
Per Common Unit	$	$
Total	$	$

Common units sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any common units sold by the underwriters to securities dealers may be sold at a discount of up to $ per common unit from the initial public offering price. If all the common units are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters right to reject any order in whole or in part.

We, certain of our affiliates (including our general partner and Holly Logistic Services, L.L.C., which is the general partner of our general partner) and the officers and directors of Holly Logistic Services, L.L.C. have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any common units or securities convertible into or exchangeable for common units during the period from the date of this prospectus supplement continuing through the date 90 days after the date of this prospectus supplement, except with the prior written consent of Goldman, Sachs & Co. and UBS Securities LLC. This agreement does not apply to any existing employee benefit plans and will permit the issuance of our common units by us to Sinclair in connection with the acquisition of the Sinclair logistics assets.

In connection with the offering, the underwriters may purchase and sell common units in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of common units than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters option to purchase additional common units from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional common units or purchasing common units in the open market. In determining the source of common units to close out the covered short position, the underwriters will consider, among other things, the price of common units available for purchase in the open market as compared to the price at which they may purchase additional common units pursuant to the option granted to it. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing common units in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common units in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the common units while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased common units sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts may have the effect of preventing or retarding a decline in the market price of the common units, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common units. As a result, the price of the common units may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the NYSE, in the over-the-counter market or otherwise.

We estimate that our total expenses for the offering, excluding underwriting discounts and commissions, will be approximately $250,000.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the issuer, for which they received or will receive customary fees and expenses.

Because the Financial Industry Regulatory Authority (FINRA) views the common units offered hereby as interests in a direct participation program, the offering is being made in compliance with FINRA Rule 2310.

LEGAL MATTERS

The validity of the common units is being passed upon for us by Fulbright & Jaworski L.L.P., as our counsel. Certain legal matters are being passed upon for the underwriters by Latham & Watkins LLP.

EXPERTS

The consolidated financial statements of Holly Energy Partners, L.P. appearing in Holly Energy Partners, L.P. s Annual Report on Form 10-K for the year ended December 31, 2008, as amended, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical fact, included or incorporated by reference in this prospectus supplement are forward-looking statements, including, but not limited to, statements identified by the words anticipate , believe , estimate , expect , plan , intend and forecast , and similar expressions and statements rega business strategy, plans and objectives for future operations. These statements reflect our current views with respect to future events, based on what we believe are reasonable assumptions. Certain factors could cause actual results to differ materially from results anticipated in the forward-looking statements. These factors include, but are not limited to:

- risks and uncertainties with respect to the actual quantities of petroleum products and crude oil shipped on our pipelines and/or terminalled in our terminals;
- the successful acquisition of the Sinclair logistics assets;
- the successful closing of the UNEV pipeline transaction and the future performance of such asset;
- the grant to us of an option to purchase, and our exercise of such option, with respect to Holly Corporation s recently constructed pipeline from Centurion Pipeline, L.P. s Slaughter station in west Texas to Lovington, New Mexico, and a pipeline project that connects our Artesia crude gathering system to Holly Corporation s Lovington facility, and the performance of such assets;
- the economic viability of Holly Corporation, Alon USA, Inc. and our other customers;
- the demand for refined petroleum products in markets we serve;
- our ability to successfully purchase and integrate additional operations in the future;
- our ability to complete previously announced pending or contemplated acquisitions and dispositions;
- the availability and cost of additional debt and equity financing;
- the possibility of reductions in production or shutdowns at refineries utilizing our pipeline and terminal facilities;
- the effects of current and future government regulations and policies;
- our operational efficiency in carrying out routine operations and capital construction projects;
- the possibility of terrorist attacks and the consequences of any such attacks;
- general economic conditions; and
- other financial, operations and legal risks and uncertainties set forth in Item 1A Risk Factors in our 2008 Annual Report on Form 10-K and the other documents incorporated by reference herein.

Other factors described herein, or factors that are unknown or unpredictable, could also have a material adverse effect on future results. Please read Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended

December 31, 2008 and beginning on page S-14 of this prospectus supplement. Except as required by securities laws, we do not intend to update these forward-looking statements and information.

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WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934 (the Exchange Act) and in accordance therewith file reports and other information with the Securities and Exchange Commission (SEC). For further information regarding us, you may desire to review reports and other information filed under the Exchange Act, including the reports and other information incorporated by reference into this prospectus. Such reports and other information may be inspected and copied at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies can be obtained by mail at prescribed rates by writing to the public reference room mentioned above. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. Therefore, before you decide to invest in the common units offered hereby, you should always check for reports we may have filed with the SEC after the date of this prospectus. We incorporate by reference the documents listed below filed by us and any future filings made after the date of this prospectus with the SEC under sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the termination of this offering (other than information furnished and not filed with the SEC):

- the amendment to the Annual Report on Form 10-K of Holly Energy Partners, L.P. for the year ended December 31, 2008, as filed with the SEC on May 1, 2009;

- the Annual Report on Form 10-K of Holly Energy Partners, L.P. for the year ended December 31, 2008, as filed with the SEC on February 17, 2009;

- the Quarterly Report on Form 10-Q of Holly Energy Partners, L.P. for the quarter ended March 31, 2009, as filed with the SEC on April 30, 2009;

- the Quarterly Report on Form 10-Q of Holly Energy Partners, L.P. for the quarter ended June 30, 2009, as filed with the SEC on July 31, 2009;

- the Quarterly Report on Form 10-Q of Holly Energy Partners, L.P. for the quarter ended September 30, 2009, as filed with the SEC on October 30, 2009;

- the Current Reports on Form 8-K of Holly Energy Partners, L.P., as filed with the SEC on January 7, 2009, May 6, 2009, June 5, 2009, August 6, 2009, and October 21, 2009 (excluding any information furnished pursuant to Item 2.02 or Item 7.01 on any Current Report on Form 8-K); and

- the description of our common units contained in our registration statement on Form 8-A, as filed with the SEC on June 21, 2004, and any subsequent amendment thereto filed for the purpose of updating such description.

The SEC maintains a web site on the Internet at http://www.sec.gov. Our periodic reports and other information filed by us with the SEC can be downloaded from the SEC s web site and can also be inspected at the offices of the New

York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon written or oral request, a copy of any document incorporated by reference in this prospectus (other than exhibits to any such document not described above) and our partnership agreement. Requests for such documents should be directed to Holly Energy Partners, L.P., 100 Crescent Court, Suite 1600, Dallas, Texas 75201, Attention: Chief Financial Officer; telephone number (214) 871-3555.

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PROSPECTUS

Holly Energy Partners, L.P.
Holly Energy Finance Corp.

$1,000,000,000

COMMON UNITS
PREFERRED UNITS
DEBT SECURITIES

We may from time to time offer the following securities under this prospectus:

common units representing limited partner interests in Holly Energy Partners, L.P.;

preferred units representing limited partner interests in Holly Energy Partners, L.P.; and

debt securities of Holly Energy Partners, L.P.

Holly Energy Finance Corp. may act as co-issuer of the debt securities and certain other subsidiaries of Holly Energy Partners, L.P. may guarantee the debt securities.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities we will provide a prospectus supplement that will contain specific information about the terms of that offering. The amount of any securities offered and the price at which those securities are offered will be determined at the time of each offering. Any prospectus supplement may also add, update or change information contained in this prospectus. You should read carefully this prospectus and any prospectus supplement before you invest. You should also read the documents we have referred you to in the Where You Can Find More Information section of this prospectus for information about us, including our financial statements.

Our common units are listed on the New York Stock Exchange under the trading symbol HEP. We will provide information in the prospectus supplement for the expected trading market, if any, for any preferred units or debt securities that we issue.

Unless otherwise specified in a prospectus supplement, any of our senior debt securities, when and if issued, will be unsecured and will rank equally with our other unsecured and unsubordinated indebtedness, and any of our subordinated debt securities, when and if issued, will be subordinated in right of payment to our senior debt.

Limited partnerships are inherently different from corporations. You should review carefully each of the factors referred to under Risk Factors beginning on page 3 of this prospectus and contained in the applicable prospectus supplement and in the documents incorporated by reference herein and therein for a discussion of important risks you should consider before investing in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities by the Registrants unless accompanied by a prospectus supplement.

The date of this prospectus is December 4, 2008.

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You should rely only on the information contained or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information incorporated by reference or provided in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of each document.

Our, we, us and Holly Energy Partners as used in this prospectus refer to Holly Energy Partners, L.P. or to Holly Energy Partners, L.P. and certain of its subsidiaries collectively, including its subsidiary Holly Energy Finance Corp., as the context requires.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the Commission) using a shelf registration process. Under this shelf registration process, we may offer from time to time up to $1,000,000,000 of our securities. Each time we offer securities, we will provide you with a prospectus supplement that will describe, among other things, the specific amounts and prices of the securities being offered and the terms of the offering. Any prospectus supplement may add, update or change information contained in this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in any prospectus supplement. The information in this prospectus is accurate as of its date. Therefore, before you invest in our securities, you should carefully read this prospectus and any prospectus supplement relating to the securities offered to you together with the additional information described under the heading Where You Can Find More Information.

WHO WE ARE

Holly Energy Partners, L.P. is a Delaware limited partnership engaged principally in the business of operating a system of petroleum product and crude oil pipelines in Texas, New Mexico, Oklahoma and Utah, distribution terminals in Texas, New Mexico, Arizona, Utah, Idaho and Washington and refinery tankage in New Mexico and Utah. We generate revenues by charging tariffs for transporting petroleum products and crude oil through our pipelines and by charging fees for terminalling petroleum products and other hydrocarbons, and storing and providing other services at our storage tanks and terminals. We do not take ownership of products that we transport or terminal; therefore, we are not directly exposed to changes in commodity prices. We serve Holly Corporation s refineries in New Mexico and Utah under three 15-year pipeline, tankage and terminal agreements expiring in July 2019, July 2020 and February 2023 and Alon USA, Inc. s (Alon) Big Spring Refinery under a separate pipelines and terminals agreement expiring in February 2020. We are dedicated to generating stable cash flows and growing our business. Our assets include:

Pipelines:

- approximately 780 miles of refined product pipelines, including 340 miles of leased pipelines, that transport gasoline, diesel and jet fuel principally from Holly Corporation s Navajo Refinery in New Mexico to Holly Corporation s customers in the metropolitan and rural areas of Texas, New Mexico, Arizona, Colorado, Utah and northern Mexico;
- approximately 510 miles of refined product pipelines that transport refined products from Alon s Big Spring refinery in Texas to customers in Texas and Oklahoma;
- two parallel 65-mile pipelines that transport intermediate feedstocks and crude oil from Holly Corporation s Lovington, New Mexico refining facilities to Holly Corporation s Artesia, New Mexico refining facilities;
- a 36-mile jet fuel pipeline which runs from Artesia to Roswell, New Mexico;
- approximately 10 miles of crude and refined product pipelines which service Holly Corporation s Woods Cross refinery;
- approximately 860 miles of crude oil trunk, gathering and lease connection pipelines which service Holly Corporation s Lovington and Artesia refining facilities; and

a 70% interest in Rio Grande Pipeline Company, a joint venture that owns a 249-mile refined product pipeline that transports liquid petroleum gases, or LPGs, from West Texas to the Texas/Mexico border near El Paso for further transport into northern Mexico.

Refined Product Terminals:

four refined product terminals, located in El Paso, Texas; Moriarty and Bloomfield, New Mexico; and Tucson, Arizona, with an aggregate capacity of approximately 1 million barrels, that are integrated with our refined product pipeline system that serves Holly Corporation s Navajo Refinery;

three refined product terminals (two of which are 50% owned), located in Burley and Boise, Idaho, and Spokane, Washington, with an aggregate capacity of approximately 500,000 barrels, that serve third-party common carrier pipelines;

one refined product terminal near Mountain Home, Idaho, with a capacity of 120,000 barrels, that serves a nearby United States Air Force Base;

two refined product terminals, located in Wichita Falls and Abilene, Texas, and one tank farm in Orla, Texas with aggregate capacity of 480,000 barrels, that are integrated with our refined product pipelines that serve Alon s Big Spring, Texas refinery;

two refined product truck loading racks, one located within Holly Corporation s Navajo Refinery and one located within Holly Corporation s Woods Cross Refinery near Salt Lake City, Utah; and

a Roswell, New Mexico jet fuel terminal leased through September 2011.

Crude Oil Storage:

approximately 600,000 barrels of on-site crude oil tankage at Holly Corporation s Navajo and Woods Cross Refineries.

Holly Energy Finance Corp. (Holly Energy Finance) is a Delaware corporation and wholly-owned subsidiary of Holly Energy Partners organized for the sole purpose of co-issuing certain of our debt securities. Holly Energy Finance does not have any operations of any kind and does not generate any revenue other than as may be incidental to its activities as a co-issuer of any of our debt securities.

Our principal executive offices are located at 100 Crescent Court, Suite 1600, Dallas, Texas 75201, and our telephone number is (214) 871-3555. Our website is located at http://www.hollyenergypartners.com. We make our periodic reports and other information filed with or furnished to the Commission available, free of charge, through our website, as soon as reasonably practicable. Information on our website or any other website, is not incorporated by reference into this prospectus and does not constitute a part of this prospectus unless specifically so designated and filed with the Commission.

THE SUBSIDIARY GUARANTORS

Throughout this prospectus, we refer to each of the following subsidiaries of Holly Energy Partners as the Subsidiary Guarantors : HEP Logistics GP, L.L.C., Holly Energy Partners Operating, L.P., HEP Pipeline GP, L.L.C., HEP Refining GP, L.L.C., HEP Mountain Home, L.L.C., HEP Pipeline, L.L.C., HEP Refining, L.L.C., HEP Woods Cross, L.L.C., HEP Navajo Southern, L.P., HEP Pipeline Assets, Limited Partnership, HEP Refining Assets, L.P. and HEP Fin Tex/Trust River, L.P. Each of the Subsidiary Guarantors may jointly and severally and unconditionally guarantee our payment obligations under any series of debt securities offered by this prospectus and any prospectus supplement.

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RISK FACTORS

An investment in our securities involves risks. Before you invest in our securities you should carefully consider those risk factors included in our most recent Annual Report on Form 10-K, as supplemented by our Quarterly Reports on Form 10-Q, each of which is incorporated herein by reference, and those risk factors that may be included in the applicable prospectus supplement together with all of the other information included in this prospectus, any prospectus supplement and the documents we incorporate by reference in evaluating an investment in our securities. This prospectus also contains forward-looking statements that involve risks and uncertainties. Please read Forward-Looking Statements. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including the risks described in the foregoing documents and the other information included in, or incorporated by reference into, this prospectus. If any of these risks occur, our business, financial condition or results of operations could be adversely affected. In that case, we may be unable to pay distributions to our untiholders, or to pay interest on, or the principal of, any debt securities. In that event, the trading price of our securities could decline and you could lose all or part of your investment. When we offer and sell any securities pursuant to a prospectus supplement, we may include additional risk factors relevant to such securities in the prospectus supplement.

FORWARD-LOOKING STATEMENTS

This prospectus and some of the documents we incorporate by reference contain various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by and information currently available to us. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. When used in this prospectus or the documents we have incorporated herein or therein by reference, words such as anticipate, project, expect, plan, goal, forecast, intend, could, b similar expressions and statements regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Although we and our general partner believe that such expectations reflected in such forward-looking statements are reasonable, neither we nor our general partner can give assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Among the key risk factors that may have a direct bearing on our results of operations and financial condition are:

- Risks and uncertainties with respect to the actual quantities of petroleum products and crude oil shipped on our pipelines and/or terminalled in our terminals;
- The economic viability of those Holly Corporation subsidiaries we contract with as well as Alon USA, Inc. and our other customers;
- The demand for refined petroleum products in markets we serve;
- Our ability to successfully purchase and integrate additional operations in the future;
- Our ability to complete previously announced pending or contemplated acquisitions;
- The availability and cost of additional debt and equity financing;

The possibility of reductions in production or shutdowns at refineries utilizing our pipeline and terminal facilities;

The effects of current and future government regulations and policies;

Our operational efficiency in carrying out routine operations and capital construction projects;

The possibility of terrorist attacks and the consequences of any such attacks;

General economic conditions; and

Other financial, operations and legal risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

Other factors described herein, or factors that are unknown or unpredictable, could also have a material adverse effect on future results. You should not put undue reliance on any forward-looking statements. Please review the risk factors described under Risk Factors in this prospectus and any prospectus supplement and in the Risk Factors section of our most recent Annual Report on Form 10-K and, to the extent applicable, our Quarterly Reports on Form 10-Q. Except as required by securities laws, we do not intend to update these forward-looking statements and information.

USE OF PROCEEDS

Except as otherwise provided in the applicable prospectus supplement, we will use the net proceeds from any sale of securities described in this prospectus for general partnership 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. The prospectus supplement for any particular offering of securities using this prospectus will disclose the actual use of the net proceeds from the sale of such securities. The exact amounts to be used and when the net proceeds will be applied to partnership purposes will depend on a number of factors, including our funding requirements and the availability of alternative funding sources.

RATIO OF EARNINGS TO FIXED CHARGES

For purposes of calculating the ratio of earnings to fixed charges, earnings represent income before income tax expense before deducting fixed charges. Fixed charges include interest and 30% of the total operating lease rental expense, which is the portion deemed to be interest. Our ratio of earnings to fixed charges for each of the periods indicated is as follows:

	Nine Months Ended September 30,	Years Ended December 31,				
	2008	2007	2006	2005	2004	2003
Ratio of earnings to fixed charges	2.22	3.67	2.91	3.43	16.13	1.27

DESCRIPTION OF DEBT SECURITIES

Holly Energy Partners may issue debt securities in one or more series and Holly Energy Finance may be a co-issuer of one or more series of such debt securities. When used in this section, references to we, us and our refer to Holly Energy Partners and, if Holly Energy Finance co-issues any debt securities, Holly Energy Finance. References to an Indenture refer to the particular Indenture under which we issue a series of debt securities.

The following description sets forth the general terms and provisions that will apply to any of our debt securities. Each prospectus supplement will state the particular terms that will apply to any debt securities included in the supplement.

General

The Indentures

We will issue our debt securities under either a Senior Indenture or a Subordinated Indenture, among us, a trustee that we will name in the related prospectus supplement and, as applicable, any Subsidiary Guarantors. The term Trustee as used in this prospectus shall refer to the trustee under any Indenture. Any debt securities will be governed by the applicable provisions of the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939. We, the Trustee and, as applicable, the Subsidiary Guarantors, may enter into supplements to the applicable Indenture from time to time. The debt securities will be either senior debt securities or subordinated debt securities.

Neither Indenture contains provisions that would afford holders of debt securities protection in the event of a sudden and significant decline in our credit quality or a takeover, recapitalization or highly leveraged or

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similar transaction. Accordingly, we could in the future enter into transactions that could increase the amount of indebtedness outstanding at that time or otherwise adversely affect our capital structure or credit rating.

This description is a summary of the material provisions of the debt securities and the Indentures. We urge you to read the forms of Senior Indenture and Subordinated Indenture filed as exhibits to the registration statement of which this prospectus is a part because those Indentures, and not this description, govern your rights as a holder of our debt securities.

The Debt Securities

Any series of debt securities that we issue:

will be the general obligations of Holly Energy Partners and Holly Energy Finance, if Holly Energy Finance co-issues such debt securities;

will be general obligations of the Subsidiary Guarantors, if guaranteed by them; and

may be subordinated to our Senior Indebtedness and that of any Subsidiary Guarantors.

The Indenture does not limit the total amount of debt securities that we may issue. We may issue debt securities under the Indenture from time to time in separate series, up to the aggregate amount authorized for each such series.

Specific Terms of Each Series of Debt Securities to be Described in the Prospectus Supplement

We will prepare a prospectus supplement and either a supplemental indenture, or authorizing resolutions of the board of directors of our general partner s general partner, accompanied by the officers certificate, relating to any series of debt securities that we offer, which will include specific terms relating to some or all of the following:

the form and title of the debt securities;

the total principal amount of the debt securities;

the date or dates on which the debt securities may be issued;

whether the debt securities are senior or subordinated debt securities;

the currency or currencies in which principal and interest will be paid, if not in U.S. dollars;

the portion of the principal amount which will be payable if the maturity of the debt securities is accelerated;

any right we may have to defer payments of interest by extending the dates payments are due and whether interest on those deferred amounts will be payable;

the dates on which the principal and premium, if any, of the debt securities will be payable;

the interest rate or rates which the debt securities will bear, or by which the debt securities will accrete in value, and the interest payment dates for the debt securities;

any conversion or exchange provisions;

any optional redemption provisions;

any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the debt securities;

HOS Douglas	S200	Stacked	GoM	Apr 2000	2,246	4,120	4,000	DP-1
HOS Nome	S200	Stacked	GoM	Aug 2000	2,246	4,120	4,000	DP-1
HOS Crossfire	200	Stacked (FF)	Mexico	Nov 1998	1,780	2,714	4,000	DP-1
HOS Super H	200	Stacked	GoM	Jan 1999	1,764	3,590	4,000	DP-1
HOS Brigadoon	200	Stacked (FF)	Mexico	Mar 1999	1,767	3,590	4,000	DP-1
HOS Thunderfoot	200	Stacked (FF)	Mexico	May 1999	1,677	3,600	4,000	DP-1
HOS Dakota	200	Stacked (FF)	Mexico	Jun 1999	1,780	2,714	4,000	DP-1
HOS Explorer	220	Stacked	GoM	Feb 1999	1,625	3,050	3,900	DP-1
HOS Voyager	220	Stacked	GoM	May 1998	1,625	3,050	3,900	DP-1
HOS Pioneer	220	Stacked	GoM	Jun 2000	1,630	3,050	4,000	DP-1
MANAGED VESSELS:								
240 class (2,500 to 3,500 DWT)								
Black Powder	250 EDF	Military	Other U.S.	Jun 2009	2,900	8,300	6,000	DP-2
Westwind	250 EDF	Military	Other U.S.	Jun 2009	2,900	8,300	6,000	DP-2
Eagleview	250 EDF	Military	Other U.S.	Oct 2009	2,900	8,300	6,000	DP-2
Arrowhead	250 EDF	Military	Other U.S.	Jan 2009	2,900	8,300	6,000	DP-2

FF—foreign-flagged
TBD—to be determined

(1) "DP-1," "DP-2" and "DP-3" mean various classifications, or equivalent, of dynamic positioning systems on new generation vessels to automatically maintain a vessel's position and heading through anchor-less station keeping.

(2) These vessels are currently being constructed under our fifth OSV newbuild construction program with anticipated in-service dates during 2019.

(3) These six vessels were converted into 240 class DP-2 OSVs as part of our 200 class OSV retrofit program in 2013. They were originally constructed and placed in service in their prior Super 200 class DP-1 configuration in 1999 or 2000 and were acquired by us in August 2007.

We own long-term lease rights to two adjacent shore-base facilities located in Port Fourchon, Louisiana, named HOS Port. Port Fourchon's proximity to the deepwater GoM provides a strategic logistical advantage for servicing drilling rigs, production facilities and other offshore installations and sites. We also utilize HOS Port as a shoreside facility for performing vessel maintenance, outfitting and other in-the-water shipyard activities. Developed as a multi-use facility, Port Fourchon has historically been a land base for offshore oil support services and the Louisiana Offshore Oil Port, or LOOP. According to industry sources, Port Fourchon services nearly all deepwater rigs and almost half of all shallow water rigs in the GoM. The HOS Port facility has approximately one year remaining on its current lease and three additional five-year renewal options on each parcel. The combined acreage of HOS Port is approximately 60 acres with total waterfront bulkhead of nearly 3,000 linear feet. HOS Port not only supports our existing fleet and customers' deepwater logistics requirements, but it underscores our long-term commitment to and our long-term outlook for the deepwater GoM.

Principal Markets

OSVs and MPSVs operate worldwide, but are generally concentrated in relatively few offshore regions with high levels of exploration and development activity, such as the GoM, the North Sea, Southeast Asia, West Africa, Latin America and the Middle East. Our core geographic markets are the GoM, Mexico and Brazil. In these markets we provide services to several major integrated oil companies as well as mid-size and large independent oil companies with deepwater and ultra-deepwater activities and to national oil companies such as PEMEX and Petrobras. We also occasionally operate in select international markets, which have included the rest of Latin America, West Africa, the Mediterranean Sea, the Black Sea and the Caribbean basin. We are often subcontracted by other oilfield service companies, both in the GoM and internationally, to provide a new generation fleet that enables them to render offshore oilfield services, such as well stimulation or other enhanced oil recovery activities, diving and ROV operations, construction, installation, inspection, maintenance, repair and decommissioning services. We also provide a specialized application of our new generation OSVs for use by the United States military.

While there is some vessel migration between regions, key factors such as mobilization costs, vessel suitability and government statutes prohibiting foreign-flagged vessels from operating in certain waters, or coastwise cabotage laws such as the Jones Act, can limit the migration of OSVs. Because some MPSVs are generally utilized for non-cargo operations, they are less limited by cabotage laws. Demand for OSVs, as evidenced by dayrates and utilization rates, is primarily related to offshore oil and natural gas exploration, development and production activity. Such activity is influenced by a number of factors, including the actual and forecasted price of oil and natural gas, the level of drilling permit activity, capital budgets of offshore exploration and production companies, and repair and maintenance needs in the deepwater oilfield.

Offshore exploration and production activities are increasingly focused on deep wells (as defined by total well depth rather than water depth), whether on the Outer Continental Shelf or in the deepwater or ultra-deepwater. These types of wells require high-specification equipment, which has driven the recent and nearly completed newbuild cycle for drilling rigs and for OSVs. There were 43 floating rigs under construction or on order on February 7, 2018 and, as of that date, there were options outstanding to build four additional floating rigs. In addition, on that date, there were 91 high-spec jack-up rigs under construction or on order worldwide, and there were options outstanding to build 15 additional high-spec jack-up rigs. Most, if not all, of these rigs were ordered prior to the downturn in oil prices that has persisted since late 2014. Consequently, the market for deepwater drilling rigs is expected to be over-supplied for the forseeable future. This oversupply of rigs may drive down the cost of contracting a drilling rig, with the result that more rigs are employed, which could positively impact utilization of supply vessels. Each drilling rig working on deep-well projects typically requires more than one OSV to service it, and the number of OSVs required is dependent on many factors, including the type of activity being undertaken, the location of the rig and the size and capacity of the OSVs. During normal operating conditions, based on the historical data for the number of floating rigs and OSVs working, we believe that two to four OSVs per rig are required in the GoM and even more OSVs are necessary per rig in Brazil where greater logistical challenges result in longer vessel turnaround times to service drill sites. Typically, during the initial drilling stage, more OSVs are required to supply drilling mud, drill pipe and other materials than at later stages of the drilling cycle. In addition, generally more OSVs are required the farther a drilling rig is located from shore. Under normal weather conditions, the transit time to deepwater drilling rigs in the GoM and Brazil can typically range from six to 24 hours for a new generation vessel. In Brazil, transit time for a new generation vessel to some of the newer, more logistically remote deepwater drilling rig locations are more appropriately measured in days, not hours. In addition to drilling rig support, deepwater and ultra-deepwater exploration and production activities should result in the expansion of other specialty-service offerings for our vessels. These markets include subsea construction support, installation, IRM work, and life-of-field services, which include well-stimulation, workovers and decommissioning.

Our charters are the product of either direct negotiation or a competitive proposal process, which evaluates vessel capability, availability and price. Our primary method of chartering in the GoM is through direct vessel negotiations with our customers on either a long-term or spot basis. In the international market, we sometimes charter through local entities in order to comply with cabotage or other local requirements. Some charters are solicited by customers through international vessel brokerage firms, which earn a commission that is customarily paid by the vessel owner. Our operations and management agreement with the U.S. Navy's Military Sealift Command was a sole source selection based upon certain capabilities unique to the Company that were developed while the applicable vessels were chartered to the Navy. All of our charters, whether long-term or spot, are priced on a dayrate basis, whereby for each day that the vessel is under contract to the customer, we earn a fixed amount of charter-hire for making the vessel available for the customer’s use. Some of the long-term contracts for our vessels and all of our government, including national oil company, charters contain early termination options in favor of the customer; however, some have fees designed to discourage early termination. Long-term charters sometimes contain provisions that permit us to increase our dayrates in order to be compensated for certain increased operational expenses or regulatory changes.

Competition

The offshore support vessel industry is highly competitive. Competition primarily involves such factors as:

- quality, capability and age of vessels;
- quality, capability and nationality of the crew members;

- ability to meet the customer’s schedule;
- safety record, reputation, experience and;
- price.

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Our high-spec OSVs are predominately U.S.-flagged vessels, which qualify them under the Jones Act to engage in domestic coastwise trade. The Jones Act restricts the ability of vessels that are foreign-built, foreign-owned, foreign-crewed or foreign-flagged from engaging in coastwise trade in the United States. The transportation services typically provided by OSVs constitute coastwise trade as defined by the Jones Act. See "Item 1A-Risk Factors" for a more detailed discussion of the Jones Act. Consequently, competition for our services in the GoM is largely restricted to other U.S. vessel owners and operators, both publicly and privately held. We believe that we operate the second largest fleet by DWT of new generation Jones Act-qualified OSVs in the United States. Internationally, our OSVs compete against other U.S. owners, as well as foreign owners and operators of OSVs. Some of our international competitors may benefit from a lower cost basis in their vessels, which are usually not constructed in U.S. shipyards, as well as from lower crewing costs and favorable tax regimes. While foreign vessel owners cannot engage in U.S. coastwise trade, some cabotage laws in other parts of the world permit temporary waivers for foreign vessels if domestic vessels are unavailable. We and other U.S. and foreign vessel owners have been able to obtain such waivers in the foreign jurisdictions in which we operate.

Many of the services provided by MPSVs do not involve the transportation of merchandise and therefore are generally not considered coastwise trade under U.S. and foreign cabotage laws. Consequently, our MPSVs and the HOSMAX MPSVs being constructed under our fifth OSV newbuild program face competition from both foreign-flagged vessels and U.S.-flagged vessels for non-coastwise trade activities. In addition, since 2009, owners and operators of Jones-Act qualified MPSVs, such as ourselves, have challenged interpretations of the Jones Act issued by Customs and Border Protection, or CBP, that we believe erroneously allow foreign MPSVs to be used in U.S. coastwise trade. In 2009 and again in 2017, CBP announced proposed modifications to or revocations of these interpretations, but subsequently withdrew both of those proposals. In 2017, trade organizations representing the owners and operators of Jones-Act qualified MPSVs, as well as U.S. shipyards that build them, sued CBP on account of the continued existence of Jones Act interpretations that are inconsistent with the statute. That suit is pending in Federal District Court for the District of Columbia, Captain Paul Radtke, et. al. v. U.S Bureau of Customs and Border Protection, et. al. Civil Action No. 17-2412. If successful, that litigation may reduce competition that our Jones-Act qualified MPSVs face from foreign MPSVs that are currently allowed by CBP to engage in coastwise trade.

Competition in the MPSV industry is significantly affected by the particular capabilities of a vessel to meet the requirements of a customer’s project as well as price. While operating in the GoM, our MPSVs are required to utilize U.S. crews while foreign-owned vessels have historically been allowed to employ non-U.S. mariners, often from low-wage nations. U.S. crews are often more expensive than foreign crews. Also, foreign MPSV owners may have more favorable tax regimes than ours. Consequently, prices for foreign-owned MPSVs in the GoM are often lower than prices we can charge. Finally, some potential MPSV customers are also owners of MPSVs that will compete with our vessels. During the recent downturn, many foreign MPSVs have departed the GoM and most MPSVs operating in the GoM are Jones-Act qualified. If market conditions improve and the CBP letter rulings continue to allow foreign vessels to engage in coastwise trade, we might face significant price competition from the owners of these foreign vessels that enjoy lower manning and tax burdens.

We continue to observe intense scrutiny by our customers on the safety and environmental management systems of vessel operators. As a consequence, we believe that deepwater customers are increasingly biased towards companies that have demonstrated a financial and operational commitment and capacity to employ such systems. We believe this trend will, over time, make it difficult for small enterprises to compete effectively in the deepwater OSV and MPSV markets. Additionally, we have observed less willingness by operators to utilize DP-1 vessels in deepwater operations in the GoM. This trend will likely result in the retirement of non-DP vessels and a migration of DP-1 vessels to non-deepwater regions, such as the shelf, and certain international regions.

Although some of our principal competitors are larger or have more extensive international operations than we do, we believe that our operating capabilities and reputation for quality and safety enable us to compete effectively with other fleets in the market areas in which we operate or intend to operate. In particular, we believe that the relatively young age and advanced features of our OSVs and MPSVs provide us with a competitive advantage. The ages of our high-spec new generation OSVs range from one year to 19 years with a weighted-average fleet age, based on DWT, of six years. In fact, approximately 90% of our active new generation OSVs have been placed in-service since January 1,

2008. The average age of the industry’s conventional U.S.-flagged OSV fleet is over 35 years and the industry's domestic new generation OSV fleet is approximately ten years. We believe that most of these older vessels are cold-stacked and many of them have been or will be permanently retired in the next few years due to physical and economic obsolescence. Worldwide competition for new generation vessels has been impacted in recent years by the increase in newbuild OSVs placed in-service to address greater customer interest in deep-well, deepwater and ultra-deepwater drilling activity and the decline in industry activity due to low oil prices. Upon completion of our fifth OSV newbuild program, we expect to own a fleet of 72 Upstream vessels of which 82% will be DP-2 or DP-3 with a weighted-average fleet age, based on DWT, of ten years in 2019.

Over the past three years, there have been several, and we expect further, formal and informal restructurings of owners and operators of OSVs and MPSVs that compete with us in the U.S. and globally. Two of our publicly traded domestic competitors emerged from Chapter 11 proceedings in 2017. Companies that have undergone restructurings may have less debt and obligations associated with servicing their debt than companies that have not undergone restructurings. Additionally, fresh start accounting rules might also provide advantages that impact financial results that such restructured companies report. Because we have not initiated measures of this kind, we may face stiffer competition from restructured companies and may also report lower financial results relative to such restructured companies.

Our success depends in large part on our ability to attract and retain highly skilled and qualified personnel. Our inability to hire, train and retain a sufficient number of qualified employees could impact our ability to manage, maintain and grow our business. In crewing our vessels, we require skilled employees who can perform physically demanding work and operate complex vessel systems. As the result of our vessel stacking strategy, we have reduced our mariner headcount significantly. When these stacked vessels return to service, we will need to hire and train additional mariners to operate such vessels.

CUSTOMER DEPENDENCY

Our customers are generally limited to large, independent, integrated or nationally-owned energy companies. These firms are relatively few in number. The percentage of revenues attributable to a customer in any particular year depends on the level of oil and natural gas exploration, development and production activities undertaken by such customer, the availability and suitability of our vessels for the customer's projects or products and other factors, many of which are beyond our control. For the year ended December 31, 2017, Hess Corporation, Military Sealift Command and Royal Dutch Shell plc (including worldwide affiliates) each accounted for 10% or more of our consolidated revenues. For a discussion of significant customers in prior periods, see Note 13 to our consolidated financial statements.

GOVERNMENT REGULATION

Environmental Laws and Regulations

Our operations are subject to a variety of federal, state, local and international laws and regulations regarding the discharge of materials into the environment or otherwise relating to environmental protection. The requirements of these laws and regulations have become more complex and stringent in recent years and may, in certain circumstances, impose strict, joint and several liability, rendering a company liable for environmental damages and remediation costs without regard to negligence or fault on the part of such party. Aside from possible liability for damages and costs including natural resource damages associated with releases of oil or hazardous materials into the environment, such laws and regulations may expose us to liability for the conditions caused by others or even acts of ours that were in compliance with all applicable laws and regulations at the time such acts were performed. Failure to comply with applicable laws and regulations may result in the imposition of administrative, civil and criminal penalties, revocation of permits, issuance of corrective action orders and suspension or termination of our operations. Moreover, it is possible that future changes in the environmental laws, regulations or enforcement policies that impose additional or more restrictive requirements or claims for damages to persons, property, natural resources or the environment could result in substantial costs and liabilities to us and could have a material adverse effect on our financial condition, results of operations or cash flows. We have performed what we consider to be appropriate environmental due diligence in connection with our operations and, where possible, we have taken all necessary steps to qualify for any applicable statutory defenses and limits of liability available under environmental regulations. We believe that we are in substantial compliance with currently applicable environmental laws and regulations.

OPA 90 and regulations promulgated pursuant thereto amend and augment the oil spill provisions of the Clean Water Act and impose a variety of duties and liabilities on "responsible parties" related to the prevention and/or reporting of oil spills and damages resulting from such spills in or threatening U.S. Waters, including the Outer Continental Shelf or adjoining shorelines. A "responsible party" includes the owner or operator of an onshore facility, pipeline or vessel or the lessee or permittee of the area in which an offshore facility is located. OPA 90 assigns liability to each responsible party for containment and oil removal costs, as well as a variety of public and private damages including the costs of responding to a release of oil, natural resource damages, damages for injury to, or economic losses resulting from, destruction of real or personal property of persons who own or lease such affected property. For any vessels, other than “tank vessels,” that are subject to OPA 90, the liability limits are the greater of $1,100 per gross ton or $939,800. A party cannot take advantage of liability limits if the spill was caused by gross negligence or willful misconduct or resulted from violation of a federal safety, construction or operating regulation. In addition, for an Outer Continental Shelf facility or a vessel carrying crude oil from a well situated on the Outer Continental Shelf, the limits apply only to liability for damages (e.g. natural resources, real or personal property, subsistence use, reserves, profits and earnings capacity, and public services damages). The owner or operator of such facility or vessel is liable for all removal costs resulting from a discharge or substantial threat of discharge without limits. If the party fails to report a spill or to cooperate fully in the cleanup, the liability limits likewise do not apply and certain defenses may not be available. Moreover, OPA 90 imposes on responsible parties the need for proof of financial responsibility to cover at least some costs in a potential spill. As required, we have provided satisfactory evidence of financial responsibility to the USCG for all of our vessels over 300 tons. OPA 90 does not preempt state law, and states may impose liability on responsible parties and requirements for removal beyond what is provided in OPA 90.

OPA 90 also imposes ongoing requirements on a responsible party, including preparedness and prevention of oil spills and preparation of an oil spill response plan. We have engaged the Marine Spill Response Corporation to serve as our Oil Spill Removal Organization for purposes of providing oil spill removal resources and services for our operations in U.S. waters as required by the USCG. In addition, our Tank Vessel Response Plan and Non-Tank Vessel Response Plan have been approved by the USCG.

The Clean Water Act imposes strict controls on the discharge of pollutants into the navigable waters of the United States. The Clean Water Act also provides for civil, criminal and administrative penalties for any unauthorized discharge of oil or other hazardous substances in reportable quantities and imposes liability for the costs of removal and remediation of an unauthorized discharge, including the costs of restoring damaged natural resources. Many states have laws that are analogous to the Clean Water Act and also require remediation of accidental releases of petroleum or other pollutants in reportable quantities. Our OSVs routinely transport diesel fuel to offshore rigs and platforms and also carry diesel fuel for their own use. Our OSVs also transport bulk chemical materials used in drilling activities and liquid mud, which contain oil and oil by-products. We maintain vessel response plans as required by the Clean Water Act to address potential oil and fuel spills.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, also known as “CERCLA” or “Superfund,” and similar laws impose liability for releases of hazardous substances, pollutants and contaminants into the environment. CERCLA currently exempts crude oil from the definition of hazardous substances for purposes of the statute, but our operations may involve the use or handling of other materials that may be classified as hazardous substances, pollutants and contaminants. CERCLA assigns strict, joint and several liability to each responsible party for response costs, as well as natural resource damages. Under CERCLA, responsible parties include not only owners and operators of vessels but also any person who arranged for the disposal or treatment, or arranged with a transporter for transport for disposal or treatment of hazardous substances, and any person who accepted hazardous substances for transport to and selected the disposal or treatment facilities. Thus, we could be held liable for releases of hazardous substances that resulted from operations by third parties not under our control or for releases associated with practices performed by us or others that were standard in the industry at the time and in compliance with existing laws and regulations.

The Resource Conservation and Recovery Act regulates the generation, transportation, storage, treatment and disposal of onshore hazardous and non-hazardous wastes and requires states to develop programs to ensure the safe treatment, storage and disposal of wastes. States having jurisdiction over our operations also have their own laws governing the generation and management of solid and hazardous waste. We generate non-hazardous wastes and small quantities of hazardous wastes in connection with routine operations. We believe that all of the wastes that we generate are handled in all material respects in compliance with the Resource Conservation and Recovery Act and analogous state statutes.

The USCG's final Ballast Rule became effective on June 21, 2012, and the EPA renewed the Vessel General Permit under the National Pollutant Discharge Elimination System effective on December 19, 2013. In addition, the International Maritime Organization's, or IMO, International Convention for the Control and Management of Ships’ Ballast Water and Sediments otherwise known as the Ballast Water Management Convention, or BWMC, became effective on September 8, 2017. The BWMC has similar standards to that of the USCG and EPA ballast water regulations. These regulations require all our existing vessels to meet certain standards pertaining to ballast water discharges. An exemption to certain compliance requirements in the U.S. is provided for vessels that operate within an isolated geographic region, as determined by the USCG and EPA, respectively. Most of our vessels operating in the GoM are exempt from the ballast water treatment requirements. However, for non-exempt vessels, ballast water treatment equipment may be required to be utilized on the vessel. The USCG has several approved ballast water treatment systems and, as a result, we will have to become compliant with ballast water treatment requirements that previously were waived in the U.S. Internationally, compliance with IMO's BWMC is not expected to impact us until 2018 and thereafter, as implementation of these rules is based on the renewal of a vessel's International Oil Pollution Prevention Certificate after September 8, 2017. We have currently estimated the cost of compliance with either the USCG's Ballast Rule or the BWMC to be approximately $250,000 per vessel that is required to be fitted with a treatment system.

The Clean Air Act, or CAA, passed by Congress in 1970 regulates all air pollutants resulting from industrial activities. The 1990 amendments to the CAA established jurisdiction of offshore regions. Proposed and existing facilities and vessels must prepare, as part of their development plans and reporting procedures, detailed emissions data to prove compliance with the CAA and obtain necessary permits. We believe that all of our facilities and vessels have obtained the necessary permits and are operating in all material respects in compliance with the CAA. The EPA also imposed emissions regulations affecting vessels that operate in the United States. These regulations impose standards that may require modifications to our vessels at a cost that we have as yet been unable to estimate. Moreover, the EPA's decision to regulate "greenhouse gases" as a pollutant may result in further regulations and compliance costs.

Climate Change

Greenhouse gas emissions have increasingly become the subject of international, national, regional, state and local attention. The EPA has adopted regulations under the CAA that require new and existing industrial facilities to obtain permits for carbon dioxide equivalent emissions above emission thresholds. In addition, the EPA adopted rules that mandate reporting of greenhouse gas data and other information by i) industrial sources, ii) suppliers of certain products, and iii) facilities that inject carbon dioxide underground. To the extent that these regulations may apply, we could be responsible for costs associated with complying with such regulations. Cap and trade initiatives to limit greenhouse gas emissions have been introduced in the European Union. Similarly, in prior years, numerous bills related to climate change have been introduced in the U.S. Congress, which could adversely impact most industries. In addition, future regulation of greenhouse gas could occur pursuant to future treaty obligations, statutory or regulatory changes or new climate change legislation in the jurisdictions in which we operate. It is uncertain whether any of these initiatives will be implemented. However, based on published media reports, we believe that it is unlikely that the current proposed initiatives in the U.S. will be implemented without substantial modification. If such initiatives are implemented, we do not believe that such initiatives would have a direct, material adverse effect on our operating results.

Restrictions on greenhouse gas emissions or other related legislative or regulatory enactments could have an effect in those industries that use significant amounts of petroleum products, which could potentially result in a reduction in demand for petroleum products and, consequently and indirectly, our offshore transportation and support services. We are currently unable to predict the manner or extent of any such effect. Furthermore, one of the asserted long-term physical effects of climate change may be an increase in the severity and frequency of adverse weather conditions, such as hurricanes, which may increase our insurance costs or risk retention, limit insurance availability or reduce the areas in which, or the number of days during which, our customers would contract for our vessels in general and in the GoM in particular. We are currently unable to predict the manner or extent of any such effect.

EMPLOYEES

On December 31, 2017, we had 831 employees, including 649 operating personnel and 182 corporate, administrative and management personnel. Excluded from these personnel totals are 78 third-country nationals that we contracted to serve on our vessels as of December 31, 2017. These non-U.S. mariners are typically provided by international crewing agencies. With the exception of 63 employees located in Brazil and Mexico, none of our employees are represented by a union or employed pursuant to a collective bargaining agreement or similar arrangement. We have not experienced any strikes or work stoppages, and our management believes that we continue to experience good relations with our employees.

GEOGRAPHIC AREAS

The table below presents revenues by geographic region for the past three fiscal years (in thousands):

	Year Ended December 31,					
	2017	% of total	2016	% of total	2015	% of total
United States	$153,060	80.0 %	$185,475	82.7 %	$328,262	69.0 %
International	38,352	20.0 %	38,824	17.3 %	147,808	31.0 %
	$191,412	100.0%	$224,299	100.0%	$476,070	100.0%

The table below presents net property, plant and equipment by geographic region for the past three fiscal years (in thousands):

	As of December 31,					
	2017	% of total	2016	% of total	2015	% of total
United States	$2,218,773	88.7 %	$2,250,384	87.3 %	$2,218,646	86.2 %
International	282,240	11.3 %	328,004	12.7 %	356,015	13.8 %
	$2,501,013	100.0%	$2,578,388	100.0%	$2,574,661	100.0%

Foreign Operations

Operating in foreign markets presents many political, social and economic challenges. Although we take measures to mitigate these risks, they cannot be completely eliminated. See "Item—1A Risk Factors" for a further discussion of the risks of operating in foreign markets.

SEASONALITY

Demand for our offshore support services is directly affected by the levels of offshore drilling and production activity. Budgets of many of our customers are based upon a calendar year, and demand for our services has historically been stronger in the second and third calendar quarters when allocated budgets are expended by our customers and weather conditions are more favorable for offshore activities. Many other factors, such as the expiration of drilling leases and the supply of and demand for oil and natural gas, may affect this general trend in any particular year. In addition, we typically have an increase in demand for our vessels to survey and repair offshore infrastructure immediately following major hurricanes or other named storms in the GoM.

WEBSITE AND OTHER ACCESS TO COMPANY REPORTS AND OTHER MATERIALS

Our website address is http://www.hornbeckoffshore.com. We make available on this website, free of charge, access to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and amendments to those reports, as well as other documents that we file with, or furnish to, the Commission pursuant to Sections 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such documents are filed with, or furnished to, the Commission. We intend to use our website as a means of disclosing material non-public information and for complying with disclosure obligations under Regulation FD. Such disclosures will be included on our website under the heading “Investors—IR Home.” Accordingly, investors should monitor such portion of our website, in addition to following our press releases, Commission filings and public conference calls and webcasts. Periodically, we also update our investor presentations which can be viewed on our website. You may read and copy any materials we file with the Commission at the Commission’s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-732-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission at http://www.sec.gov. Our Corporate Governance Guidelines, Code of Conduct, titled "Navigating with Integrity," (which applies to all employees, including our Chief Executive Officer and certain Financial and Accounting Officers), Code of Business Conduct and Ethics for Members of the Board of Directors, and the charters for our Audit, Nominating/Corporate Governance and Compensation Committees, can all be found on the Investor Relations page of our website under “Corporate Governance”. We intend to disclose any changes to or waivers from the Code of Conduct that would otherwise be required to be disclosed under Item 5.05 of Form 8-K on our website. We will also provide printed copies of these materials to any stockholder upon request to Hornbeck Offshore Services, Inc., Attn:

General Counsel, 103 Northpark Boulevard, Suite 300, Covington, Louisiana 70433. The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the Commission.

ITEM 1A—Risk Factors

Our results of operations and financial condition can be adversely affected by numerous risks. You should carefully consider the risks described below as well as the other information we have provided in this Annual Report on Form 10-K. The risks described below are not the only ones we face. You should also consider the factors contained in our "Forward Looking Statements" disclaimer found on page ii of this Annual Report on Form 10-K. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

We may not have the funds available or be able to obtain the funds necessary to meet the obligations relating to our 2020 senior notes, our 2021 senior notes, or our New Credit Facility.

Our 2020 senior notes, our 2021 senior notes, and our New Credit Facility, which collectively have a face value of $980.3 million, mature in April 2020, March 2021, and June 2023, respectively. In addition, upon the occurrence of certain change of control events, as defined in the indentures governing the 2020 senior notes and the 2021 senior notes, holders of such notes would have the right to require us to repurchase such notes at 101% of their principal amount, plus accrued and unpaid interest. We do not expect to have sufficient cash on hand and cash flow from operations to meet all of these obligations as they come due and will need to access additional sources of capital in order to refinance some or all of this indebtedness prior to maturity. There can be no assurance that we will succeed in accessing new capital or, if successful, that the capital we raise will not be expensive or dilutive to stockholders. Failure to meet our obligations related to any tranche of our senior notes may result in the acceleration of our other indebtedness and result in a material adverse effect on our financial condition and results of operations.

As a result of the declines in oil prices that began in late 2014, our clients have reduced and may further reduce spending on exploration and production projects, resulting in a decrease in demand for our services.

Oil and natural gas prices, and market expectations of potential changes in these prices, significantly impact the level of worldwide drilling and production services activities. Reduced demand for oil and natural gas or periods of surplus oil and natural gas generally result in lower prices for these commodities and often impact the economics of planned drilling projects and ongoing production projects, resulting in the curtailment, reduction, delay or postponement of such projects for an indeterminate period of time. When drilling and production activity and spending declines, both vessel dayrates and utilization for our vessels historically decline as well. This has been the case, beginning in October 2014 and continuing into 2018.

Oil prices worldwide dropped significantly commencing in 2014. While prices have partially recovered, we cannot predict whether current prices are sustainable. Further we do not know whether current prices will result in increased offshore and/or deepwater capital spending by our customers.

A continuation of the prolonged reduction in the overall level of exploration and development activities, whether resulting from changes in oil and gas prices or otherwise, could materially and adversely affect us by negatively impacting:

- our revenues, cash flows and profitability;
- the fair market value of our vessels;
- our ability to maintain or increase our borrowing capacity;
- our ability to obtain capital to re-finance our existing debt or expand our business through acquisitions, or otherwise;
- the collectability of our receivables; and
- our ability to retain or rehire skilled personnel whom we would need in the event of an upturn in the demand for our services.

If any of the foregoing were to occur, it could have a material adverse effect on our business and financial results.

Increases in the supply of vessels could decrease dayrates.

In addition to our fifth OSV newbuild program, which is nearing completion, certain of our competitors previously announced plans to construct new vessels to be deployed in domestic and foreign locations, thus adding to the available vessel capacity. A remobilization to the GoM oilfield of U.S.-flagged vessels currently operating in other regions or in non-

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oilfield applications would result in an increase in vessel capacity in the GoM, one of our core markets. Similarly, vessel capacity in foreign markets, including our core markets of Mexico and Brazil, may also be impacted by U.S.-flagged or other vessels migrating to such foreign locations. Further, a repeal, suspension or significant modification of the Jones Act, or the administrative erosion of its benefits, permitting vessels that are either foreign-flagged, foreign-built, foreign-owned, foreign-controlled or foreign-operated to engage in the U.S. coastwise trade, would also result in an increase in capacity. Any increase in the supply of OSVs or MPSVs, whether through new construction, refurbishment or conversion of vessels from other uses, remobilization or changes in law or its application, could not only increase competition for charters and lower utilization and dayrates, which would adversely affect our revenues and profitability, but could also worsen the impact of the current or any future downturn in the oil and gas industry on our results of operations and financial condition. Because some services provided by MPSVs are not protected by the Jones Act, foreign competitors may bring additional MPSVs to the GoM or build additional MPSVs that we will compete with domestically or internationally for such services.

The level of offshore oil and gas exploration, development and production activity has historically been volatile and is likely to continue to be so in the future. The level of activity is subject to large fluctuations in response to relatively minor changes in a variety of factors that are beyond our control.

Changes in, among others, the following factors can negatively impact our performance:

- worldwide demand for oil and natural gas;
- prevailing oil and natural gas prices and expectations about future prices and price volatility;
- changes in capital spending budgets by our customers;
- the ability of oil and gas companies to generate or otherwise obtain funds for exploration and production;
- local and international political and economic conditions and policies;
- unavailability of drilling rigs in our core markets of the GoM, Mexico and Brazil;
- the cost of offshore exploration for, and production and transportation of, oil and natural gas;
- successful exploration for, and production and transportation of, oil and natural gas from onshore sources;
- consolidation of oil and gas and oil service companies operating offshore;
- availability and rate of discovery of new oil and natural gas reserves in offshore areas;
- technological advances affecting energy production and consumption;
- the ability or willingness of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain production levels for oil;
- oil and natural gas production levels by non-OPEC countries;
- weather conditions; and
- environmental and other regulations affecting our customers and their other service providers.

Commencing in late 2014, we observed a significant decline in oil prices, which caused oil companies to announce and implement significant reductions in their capital spending programs, that is the source of much of our business activity. A prolonged period of reduced oil prices is having and could continue to have a significant adverse and long-term impact on the Company’s financial condition and results of operations.

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The early termination of contracts on our vessels could have an adverse effect on our operations.
Some of the long-term contracts for our vessels and all contracts with governmental entities and national oil companies contain early termination options in favor of the customer; however, some have early termination remedies or other provisions designed to discourage the customers from exercising such options. We cannot assure that our customers would not choose to exercise their termination rights in spite of such remedies or the threat of litigation with us. Until replacement of such business with other customers, any termination could temporarily disrupt our business or otherwise adversely affect our financial condition and results of operations. We might not be able to replace such business on economically equivalent terms. In addition, during the current and prior downturns, we have experienced customers requesting contractual concessions even though contrary to existing contractual terms. While not legally required to give concessions, commercial considerations may dictate that we do so, given the relatively few deepwater customers operating in the GoM.
Intense competition in our industry could reduce our profitability and market share.
Contracts for our vessels are generally awarded on an intensely competitive basis. Some of our competitors are willing to accept lower dayrates in order to maintain utilization, which can have a negative impact on our dayrates and utilization. As a result, we could lose customers and market share to these competitors. Similarly, competition in various markets may also be impacted by U.S.-flagged vessels migrating in and out of foreign locations due to the pace of drilling activity in the GoM.
We may not be able to complete the construction of our remaining newbuild program or may experience delays or cost overruns related to that program.
We are currently constructing the last two MPSVs under our pending newbuild program. These vessels are large and complex. We are required to make remaining milestone payments to the shipyard and other vendors totaling approximately $62 million, the majority of which payments will be due in 2019 upon delivery of each vessel from the shipyard. While we have sufficient cash on hand today to meet these obligations, unforeseen events could result in our inability to fund these obligations when they come due, which could have an adverse impact on our business plans, financial condition and results from operations. Additionally, the shipyard is delayed and unforeseen events could result in significant cost overruns for which, under certain circumstances, we might be responsible. Such delays or cost overruns could impact our ability to meet our obligations to the shipyard and could otherwise materially and adversely affect our financial condition and results from operations.
The failure to successfully complete repairs, maintenance and routine drydockings on-schedule and on-budget could adversely affect our financial condition and results of operations.
We routinely engage shipyards to drydock our vessels for regulatory compliance and to provide repair and maintenance. These activities are subject to the risks of delay and cost overruns inherent in any large construction project, including shortages of equipment, lack of shipyard availability, unforeseen engineering problems, work stoppages, weather interference, unanticipated cost increases, including costs of steel, inability to obtain necessary certifications and approvals and shortages of materials or skilled labor. Significant delays could result in adverse effects to our anticipated contract commitments or revenues. Significant cost overruns could adversely affect our financial condition and results of operations.
We have grown, and may continue to grow, through acquisitions that give rise to risks and challenges that could adversely affect our future financial results.
We regularly consider possible acquisitions of single vessels, vessel fleets and businesses that complement our existing operations to enable us to grow our business. Acquisitions can involve a number of special risks and challenges, including:

- diversion of management time and attention from our existing business and other business opportunities;
- delays in closing or the inability to close an acquisition for any reason, including third party consents or approvals;
- any unanticipated negative impact on us of disclosed or undisclosed matters relating to any vessels or operations acquired;

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- loss or termination of employees, including costs associated with the termination or replacement of those employees;
- assumption of debt or other liabilities of the acquired business, including litigation related to the acquired business;
- the incurrence of additional acquisition-related debt as well as increased expenses and working capital requirements;
- dilution of stock ownership of existing stockholders;
- increased costs and efforts in connection with compliance with Section 404 of the Sarbanes-Oxley Act; and
- substantial accounting charges for restructuring and related expenses, impairment of goodwill, amortization of intangible assets, and stock-based compensation expense.

Even if we consummate an acquisition, the process of integrating acquired operations into our own may result in unforeseen operating difficulties and costs and may require significant management attention and financial resources. In addition, integrating acquired businesses may impact the effectiveness of our internal controls over financial reporting. In the currently depressed market for OSVs, we might not be able to place vessels we acquire into immediate service, which will result in our paying for the cost to stack these vessels and eventually the cost to bring them out of stack, which could be a significant barrier to their utilization if we do not have sufficient liquidity to justify such expenses. Any of the foregoing, and other factors, could harm our ability to achieve anticipated levels of utilization and profitability from acquired vessels or businesses or to realize other anticipated benefits of acquisitions. We can give no assurance that we will be able to identify desirable acquisition candidates or that we will be successful in entering into definitive agreements or closing such acquisitions on satisfactory terms. An inability to acquire additional vessels or businesses may limit our growth potential.

Our contracts with the United States Government could be impacted by budget cuts.

Our government contracts depend upon annual funding commitments authorized by Congress. In a period of government budget cuts or other political events, our contracts might not be re-authorized, resulting in a material decline in our anticipated revenues.

We are subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.

Increasingly stringent federal, state, local and foreign laws and regulations governing worker health and safety and the manning, construction and operation of vessels significantly affect our operations. Many aspects of the marine industry are subject to extensive governmental regulation by the USCG, the National Transportation Safety Board, the EPA and the United States Customs Service, and their foreign equivalents, and to regulation by private industry organizations such as the American Bureau of Shipping. The USCG and the National Transportation Safety Board set safety standards and are authorized to investigate vessel accidents and recommend improved safety standards, while the USCG and Customs Service are authorized to inspect vessels at will. Our operations are also subject to international conventions, federal, state, local and international laws and regulations that control the discharge of pollutants into the environment or otherwise relate to environmental protection. Compliance with such laws, regulations and standards may require installation of costly equipment, increased manning, specific training, and/or operational changes. While we endeavor to comply with all applicable laws, circumstances might exist where we might not come into complete compliance with applicable laws and regulations which could result in administrative and civil penalties, criminal sanctions, imposition of remedial obligations or the suspension or termination of our operations. Some environmental laws impose strict, joint and several liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. These laws and regulations may expose us to liability for the conduct of, or conditions caused by, others, including charterers. Moreover, these laws and regulations could change in ways that substantially increase costs that we may not be able to pass along to our customers. Any changes in applicable conventions or laws, regulations or standards that would impose additional requirements or restrictions on our or our oil and gas exploration and production customers' operations could adversely affect our financial condition and results of operations. It is possible that laws and regulations may become even more stringent, which could also adversely affect our financial condition and results of operations.

We are also subject to the Merchant Marine Act of 1936, which provides that, upon proclamation by the President of a national emergency or a threat to the security of the national defense, the Secretary of Transportation may requisition or purchase any vessel or other watercraft owned by United States citizens (which includes United States corporations), including vessels under construction in the United States. If one of our OSVs or MPSVs were purchased or requisitioned by the federal government under this law, we would be entitled to be paid the fair market value of the vessel in the case of a purchase or, in the case of a requisition, the fair market value of charter hire. We would also not be entitled to be compensated for any consequential damages we suffer as a result of the requisition or purchase of any of our OSVs or MPSVs. The purchase or the requisition for an extended period of time of one or more of our vessels could adversely affect our results of operations and financial condition.

Finally, we are subject to the Merchant Marine Act of 1920, commonly referred to as the Jones Act, which requires that vessels engaged in coastwise trade to carry cargo between U.S. ports be documented under the laws of the United States and be controlled by U.S. citizens. A corporation is not considered a U.S. citizen unless, among other things, at least 75% of the ownership of voting interests with respect to its equity securities are held by U.S. citizens. We endeavor to ensure that we would be determined to be a U.S. citizen as defined under these laws by including in our certificate of incorporation certain restrictions on the ownership of our capital stock by non-U.S. citizens and establishing certain mechanisms to maintain compliance with these laws. If we are determined at any time not to be in compliance with these citizenship requirements, our vessels might become ineligible to engage in the coastwise trade in U.S. domestic waters, and our business and operating results would be adversely affected.

The Jones Act's provisions restricting coastwise trade to vessels controlled by U.S. citizens have been circumvented in recent years by foreign interests that seek to engage in trade reserved for vessels controlled by U.S. citizens and otherwise qualifying for coastwise trade. Legal challenges against such actions are difficult, costly to pursue and are of uncertain outcome. In addition, the Jones Act is often criticized and there are efforts underway by affected interest groups to seek its repeal. To the extent such efforts are successful and foreign competition is permitted, such competition could have a material adverse effect on domestic companies in the offshore service vessel industry and on our financial condition and results of operations. In addition, in the interest of national defense, the Secretary of Homeland Security is authorized to suspend the coastwise trading restrictions imposed by the Jones Act on vessels not controlled by U.S. citizens. Such waivers are granted from time-to-time.

Our business involves many operating risks that may disrupt our business or otherwise result in substantial losses, and insurance may be unavailable or inadequate to protect us against these risks.

Our vessels are subject to operating risks such as:

- catastrophic marine disaster;
- adverse weather and sea conditions;
- mechanical failure;
- collisions or allisions;
- oil and hazardous substance spills;
- navigation errors;
- acts of God; and
- war and terrorism.

The occurrence of any of these events may result in damage to or loss of our vessels or other property, injury or death of people or contamination of the environment. If any of these events were to occur, we could be exposed to liability for resulting damages and possible penalties that, pursuant to typical marine indemnity policies, we must pay and then seek reimbursement from our insurer. Affected vessels may also be removed from service and thus be unavailable for income-generating activity. While we believe our insurance coverage is adequate and insures us against risks that are customary in the industry, we may be unable to renew such coverage in the future at commercially reasonable rates. Moreover, existing or future coverage may not be sufficient to cover claims that may arise and we do not maintain insurance for loss of income resulting from a marine casualty.

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Our operations in international markets and shipyard activities in foreign shipyards subjects us to risks inherent in conducting business internationally.

We derive a portion of our revenues from foreign sources. In addition, certain of our shipyard repair and procurement activities are being conducted with foreign vendors. We therefore face risks inherent in conducting business internationally, such as legal and governmental regulatory requirements, potential vessel seizure or nationalization of assets, import-export quotas or other trade barriers, difficulties in collecting accounts receivable and longer collection periods, political and economic instability, kidnapping of or assault on personnel, piracy, adverse tax consequences, difficulties and costs of staffing international operations and language and cultural differences. We do not hedge against foreign currency risk. While we endeavor to contract in U.S. Dollars when operating internationally, some contracts may be denominated in a foreign currency, which would result in a foreign currency exposure risk. All of these risks are beyond our control and difficult to insure against. We cannot predict the nature and the likelihood of any such events. If such an event should occur, however, it could have a material adverse effect on our financial condition and results of operations.

We may lose the right to operate in some international markets in which we have a presence.

In certain foreign markets in which we operate, most notably Mexico, we sometimes depend upon governmental waivers of cabotage laws. These waivers could be revoked or made more burdensome, which could result in our inability to continue our operations or materially increase the costs of operating in such foreign locations. In addition, our foreign customers are often large state-owned oil companies that have monopolies or near monopolies in their home countries. These companies sometimes impose contractual requirements or restrictions that cannot be negotiated away and that can impose significant operating risks upon us. From time to time, we have challenged these contractual actions in foreign markets, which entails significant risks.

Future results of operations depend on the long-term financial stability of our customers.

Some of the contracts we enter into for our vessels are full utilization contracts with initial terms ranging from one to five years. We enter into these long-term contracts with our customers based on a credit assessment at the time of execution. Our financial condition in any period may therefore depend on the long-term stability and creditworthiness of our customers. We can provide no assurance that our customers will fulfill their obligations under our long-term contracts and the insolvency or other failure of a customer to fulfill its obligations under such contracts could adversely affect our financial condition and results of operations.

We may be unable to attract and retain qualified, skilled employees necessary to operate our business.

Our success depends in large part on our ability to attract and retain highly skilled and qualified personnel. Our inability to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

In crewing our vessels, we require skilled employees who can perform physically demanding work. As a result of the recent volatility of the oil and gas industry, we have significantly reduced our mariner headcount. Additionally, as a result of such volatility, vessel employees and potential employees may choose to pursue employment in fields that offer a more desirable work environment at wage rates that are competitive with ours. Further, unlike the current weak market conditions, during normal market conditions, we face strong competition within the broader oilfield industry for employees and potential employees, including competition from drilling rig operators for our fleet personnel. We may have difficulty hiring employees or finding suitable replacements as needed and, once normal market conditions return, should a reduced pool of workers arise, it is possible that we would have to raise wage rates or increase our benefits offered to attract workers and to retain our current employees. In such circumstances, should we not be able to increase our service rates to our customers to compensate for wage-rate increases or recruit qualified personnel to operate our vessels at full utilization, our financial condition and results of operations may be adversely affected.

Our employees are covered by federal laws that may subject us to job-related claims in addition to those provided by state laws.

Some of our employees are covered by provisions of the Jones Act, the Death on the High Seas Act and general maritime law. These laws preempt state workers' compensation laws and permit these employees and their representatives to pursue actions against employers for job-related incidents in federal courts based on tort theories.

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Because we are not generally protected by the damage limits imposed by state workers' compensation statutes for these types of claims, we may have greater exposure for any claims made by these employees.

Our success depends on key members of our management, the loss of whom could disrupt our business operations.

We depend to a large extent on the efforts and continued employment of our executive officers and key management personnel. We do not maintain key-man insurance. The loss of services of one or more of our executive officers or key management personnel could have a negative impact on our financial condition and results of operations.

Restrictions contained in the indentures governing our 2020 senior notes, our 2021 senior notes, and in the agreement governing our New Credit Facility may limit our ability to obtain additional financing and to pursue other business opportunities.

Covenants contained in the indenture governing our 2020 senior notes, in the indenture governing our 2021 senior notes and in the agreement governing our New Credit Facility require us to meet certain financial tests, which may limit or otherwise restrict:

- our flexibility in operating, planning for, and reacting to changes, in our business;
- our ability to dispose of assets, withstand current or future economic or industry downturns and compete with others in our industry for strategic opportunities; and
- our ability to obtain additional financing for working capital, refinancing of existing debt, capital expenditures, including our newbuild programs, acquisitions, general corporate and other purposes.

We have high levels of fixed costs that will be incurred regardless of our level of business activity.

Our business has high fixed costs. Downtime or low productivity due to reduced demand, as is currently being experienced, from weather interruptions or other causes can have a significant negative effect on our operating results and financial condition. In addition, given our recent vessel stackings, our fixed costs are borne by a substantially smaller active fleet of vessels.

Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors such as volatility in our vessel dayrates, changes in utilization, vessel incidents and other unforeseen matters. Many of these factors that may cause our actual financial results to vary from our publicly disclosed earnings guidance and forecasts are outside of our control.

Our actual financial results might vary from those anticipated by us or by securities analysts and investors, and these variations could be material. From time to time we publicly provide various forms of guidance, which reflect our projections about future market expectations and operating performance. The numerous assumptions underlying such guidance may be impacted by factors that are beyond our control and might not turn out to be accurate. Although we believe that the assumptions underlying our projections are reasonable when such projections are made, actual results could be materially different, particularly with respect to our MPSVs.

We are susceptible to unexpected increases in operating expenses such as crew wages, materials and supplies, maintenance and repairs, and insurance costs.

Many of our operating costs, such as crew wages, materials and supplies, maintenance and repairs, and insurance costs, are unpredictable and vary based on events beyond our control. Our gross margins will vary based on fluctuations in our operating costs. If our costs increase or we encounter unforeseen costs, we may not be able to recover such costs from our customers, which could adversely affect our financial position, results of operations and cash flows.

Stacked vessels may introduce additional operational issues.

In recognition of weak market conditions, we have elected to stack OSVs and MPSVs on various dates since October 1, 2014. We may choose to stack additional vessels should market conditions warrant. In connection with such stackings, we have reduced our mariner headcount significantly. Operationally, we limit the number of persons available to maintain such stacked vessels. Also, we have fewer revenue-producing units in service that can contribute to our results and contribute cash flows to cover our fixed costs and commitments. When stacked vessels return to service, we will incur previously deferred drydocking costs for regulatory recertifications and may incur costs to hire and train mariners to operate such vessels. Delay in reactivating stacked vessels and the costs and other expenses related to the reactivation of stacked vessels could have a material adverse effect on our cash flows and results of operations.

We may be adversely affected by uncertainty in the global financial markets.

Our future results may be impacted by volatility, weakness or deterioration in the debt and equity capital markets. Inflation, deflation, or other adverse economic conditions may negatively affect us or parties with whom we do business resulting in their non-payment or inability to perform obligations owed to us, such as the failure of customers to honor their commitments, the failure of shipyards and major suppliers to complete orders or the failure by banks to provide expected funding under our revolving credit agreement. Additionally, credit market conditions may slow our collection efforts as customers experience increased difficulty in obtaining requisite financing, potentially leading to lost revenue and higher than normal accounts receivable. This could result in greater expense associated with collection efforts and increased bad debt expense.

Any softening in the global economic recovery may adversely impact our ability to issue additional debt and equity in the future on acceptable terms. We cannot be certain that additional funding will be available if needed and to the extent required, on acceptable terms.

We may be unable to collect amounts owed to us by our customers.

We typically grant our customers credit on a short-term basis. Related credit risks are inherent as we do not typically collateralize receivables due from customers. We provide estimates for uncollectible accounts based primarily on our judgment using historical losses, current economic conditions and individual evaluations of each customer as evidence supporting the receivables valuations stated on our financial statements. However, our receivables valuation estimates may not be accurate and receivables due from customers reflected in our financial statements may not be collectible.

Future changes in legislation, policy, restrictions or regulations for drilling in the United States that cause delays or deter new drilling could have a material adverse effect on our financial position, results of operations and cash flows.

In response to the April 20, 2010, Deepwater Horizon incident, the regulatory agencies with jurisdiction over oil and gas exploration, including the DOI, imposed temporary moratoria on drilling operations, by requiring operators to reapply for exploration plans and drilling permits that had previously been approved, and by adopting numerous new regulations and new interpretations of existing regulations regarding offshore operations that are applicable to our customers and with which their new applications for exploration plans and drilling permits must prove compliant. Compliance with these new regulations and new interpretations of existing regulations have materially increased the cost of drilling operations in the GoM. These additional compliance costs could materially adversely impact our business, financial position or results of operations.

The fundamental change purchase feature of our 2019 convertible senior notes and the change of control purchase features of our 2020 senior notes and our 2021 senior notes and provisions of our certificate of incorporation, bylaws, stockholder rights plan and Delaware law may delay or prevent an otherwise beneficial takeover attempt of the Company.

The terms of our 2019 convertible senior notes require us to purchase the notes for cash in the event of a fundamental change, as defined in the applicable indenture. Upon a change in control, our 2020 senior notes and our 2021 senior notes require us to repurchase such senior notes at 101% of aggregate principal. A change in control of the Company would trigger the requirement that we purchase the 2019 convertible senior notes, the 2020 senior notes and the 2021 senior notes. A de-listing of the Company would trigger the requirement that we purchase the 2019 convertible senior notes. Furthermore, our certificate of incorporation and bylaws, Delaware corporations law, and our stockholder rights plan contain provisions that could have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of us. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock and may have the effect of delaying or preventing a takeover of the Company that would otherwise be beneficial to investors.

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Our stock price has been volatile, declining precipitously from time to time during the period from 2013 through the present, and it could decline again.

The securities markets in general and our common stock in particular have experienced significant price and volume volatility in recent years. The market price and trading volume of our common stock may continue to experience significant fluctuations due not only to general stock market conditions but also to a change in sentiment in the market regarding our operations or business prospects or those of companies in our industry. In addition to the other risk factors discussed above, the price and volume volatility of our common stock may be affected by:

- factors influencing the levels of global oil and natural gas exploration and exploitation activities, such as the current depressed prices for oil or natural gas;
- the ability or willingness of OPEC to set and maintain production levels for oil;
- oil and gas production levels by non-OPEC countries;
- operating results that vary from the expectations of securities analysts and investors;
- disasters such as the Deepwater Horizon incident in the Gulf of Mexico in 2010;
- the operating and securities price performance of companies that investors or analysts consider comparable to us;
- actions by rating agencies related to our 2019 convertible senior notes, our 2020 senior notes, or our 2021 senior notes;
- geopolitical risks;
- announcements of strategic developments, acquisitions and other material events by us or by our competitors; and
- changes in global financial markets and global economies and general market conditions, such as interest rates, commodity and equity prices and the value of financial assets.

ITEM 1B—Unresolved Staff Comments

None.

ITEM 2—Properties

Our principal executive offices are in Covington, Louisiana, where we lease approximately 65,000 square feet of office space under a lease with an initial term expiring in September 2025 and three additional five-year renewal periods. Our primary domestic operating office is located in Port Fourchon, Louisiana. We also maintain four international offices from which we operate our fleet of vessels in Mexico and Brazil, as set forth below. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" included within this report. We believe that our facilities, including waterfront locations used for vessel dockage and certain vessel repair work, provide an adequate base of operations for the foreseeable future.

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Our principal properties as of December 31, 2017 are as follows:

Location	Description	Area Using Property	Owned/Leased
Covington, Louisiana, USA	Corporate Headquarters	Corporate	Leased
Hammond, Louisiana, USA	Warehouse	GoM	Owned
Port Fourchon, Louisiana, USA	Dock, Office, Warehouse, Yard	GoM	Leased
Paraiso, Tabasco, Mexico	Office	Mexico	Leased
Ciudad Del Carmen, Campeche, Mexico	Office	Mexico	Leased
Barra da Tijuca, Rio de Janeiro, Brazil	Office	Brazil	Leased
Niteroi, Rio de Janeiro, Brazil	Office	Brazil	Leased
Houston, Texas, USA	Office	GoM	Leased

In addition to the foregoing, our revenues are principally derived from our vessels described in "Item 1—Business" of this Annual Report on Form 10-K.

Item 3—Legal Proceedings

In December 2000, LEEVAC Marine Inc. (a predecessor entity to our current subsidiary Hornbeck Offshore Transportation, LLC, or HOT) was one of several companies that formed a limited liability company, SSIC Remediation, LLC, or SSIC, which conducted interim phase environmental remedial activities at the SBA Shipyards site in Jennings, Louisiana pursuant to a December 9, 2002 Order and Agreement with the EPA. In 2015, the EPA notified SSIC's counsel of its renewed interest in the site and on September 9, 2016 published a final rule (effective October 11, 2016) adding the site to the General Superfund section of the CERCLA National Priorities List. In November 2016, HOT and nine other parties voluntarily entered into an Administrative Settlement Agreement and Order on Consent to conduct a Remedial Investigation/Feasibility Study, or RIFS, in connection with the site. In 2017, the group submitted a draft RIFS work plan to the EPA, and anticipates commencing RIFS work in 2018 within 90 days of receiving work plan approval from the EPA. HOT has accrued a liability of \$0.1 million to cover expenses anticipated to be incurred with respect to conducting the RIFS. HOT's anticipated percentage of liability for the RIFS cost and subsequent cleanup efforts has decreased from 4.0% to 3.4% due to the addition of new members to the group during 2017. The Company has not made a judgment concerning the ultimate cost of clean up should it be required.

Item 4—Mine Safety Disclosures

None.

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PART II

Item 5—Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock, $0.01 par value, trades on the New York Stock Exchange, or NYSE, under the trading symbol “HOS”. The following table sets forth, for the quarterly periods indicated, the high and low sale prices for our common stock as reported by the NYSE during 2017 and 2016.

	2017		2016	
	High	Low	High	Low
First Quarter	$8.52	$3.05	$12.98	$5.58
Second Quarter	$4.53	$1.51	$12.57	$7.67
Third Quarter	$			