

HOLLY ENERGY PARTNERS LP

Form 10-K/A

November 06, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-K/A**  
**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2006**  
**Commission File Number 1-32225**  
**HOLLY ENERGY PARTNERS, L.P.**  
**Formed under the laws of the State of Delaware**  
**I.R.S. Employer Identification No. 20-0833098**  
**100 Crescent Court, Suite 1600**  
**Dallas, Texas 75201-6915**  
**Telephone Number: (214) 871-3555**  
**Securities registered pursuant to Section 12(b) of the Act:**  
Common Limited Partner Units  
**Securities registered pursuant to Section 12(g) of the Act:**  
None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of the Form 10-K or any amendments to the Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of common limited partner units held by non-affiliates of the registrant was approximately \$327 million on June 30, 2006, based on the last sales price as quoted on the New York Stock Exchange.

The number of the registrant's outstanding common limited partners units at February 9, 2007 was 8,170,000.

**DOCUMENTS INCORPORATED BY REFERENCE:** None

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**PURPOSE OF AMENDMENT**

Holly Energy Partners, L.P. is filing this amendment to its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, originally filed on February 23, 2007, to correct amounts provided in the Stock Awards column of the Summary Compensation Table in Item 11 and to provide disclosures required by Item 404(b) of Regulation S-K in Item 13. This amendment to the original Form 10-K amends and restates only Items 11 and 13 in the original Form 10-K. The amended and restated Items 11 and 13 continue to speak as of the date of filing of the original Form 10-K. Holly Energy Partners, L.P. has not updated the disclosures in this amendment to speak as of a later date. All information contained in this amendment and the original Form 10-K is subject to updating and supplementing as provided in the periodic reports filed subsequent to the original filing date with the Securities and Exchange Commission.

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**Table of Contents****Item 11. Executive Compensation****DIRECTOR COMPENSATION*****Retainers and Fees***

Officers or employees of HLS who also serve as directors do not receive additional compensation. The only officers of HLS who also serve as directors are Messrs. Clifton and Ridenour. In August 2006, the Board of Directors implemented changes to the cash and equity components of the compensation of non-employee directors. For the year ended December 31, 2006, directors who are not officers or employees of HLS or Holly are currently compensated by: (a) a \$30,000 annual cash retainer, payable in four quarterly installments (adjusted from \$25,000 in 2005); (b) \$1,500 for attendance at each in-person meeting of the Board of Directors or a Board committee, a \$1,500 meeting fee for attendance at each telephone meeting of the Board of Directors or a Board committee that lasts more than two hours and a \$750 meeting fee for attendance at each telephone meeting of the Board of Directors or a Board committee that lasts from one-half hour up to two hours (adjusted from \$1,500 for every meeting, with a maximum of one committee meeting per day in 2005); (c) an annual grant of restricted units equal in value to \$40,000 on the date of grant, with a vesting period of one year (adjusted from \$40,000 with a vesting period of three years in 2005). In addition, the directors who serve as chairpersons of the Audit and Conflicts Committees each receive an annual retainer of \$7,500 (adjusted from \$5,000 in 2005). The director who serves as chairperson of the Compensation Committee receives an annual retainer of \$5,000 (no change). In addition, each director is reimbursed for out-of-pocket expenses in connection with attending meetings of the board of directors or committees. Each director will be fully indemnified by us for actions associated with being a director to the extent permitted under Delaware law.

Each of the directors who are not officers or employees of HLS or Holly each received total cash compensation for the annual retainer and for board and committee meetings totaling \$61,500 in 2005.

***Equity-Based Compensation***

Non-employee directors are annually awarded restricted HEP units under the Holly Energy Partners, L.P. Long-Term Incentive Plan (the "Long-Term Incentive Plan"). A restricted HEP unit is a common unit subject to forfeiture prior to the vesting of the award.

During the period ended December 31, 2006, compensation was made to directors of HLS as set forth below:

	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards<sup>(1)</sup></b>	<b>All Other Compensation</b>	<b>Total</b>
Charles M. Darling, IV	\$ 67,750	\$46,246	\$ 7,016	\$121,012
Jerry W. Pinkerton	\$ 69,000	\$46,246	\$ 7,016	\$122,262
William P. Stengel	\$ 69,000	\$46,246	\$ 7,016	\$122,262

(1) Reflects the amount recognized in the year ended December 31, 2006 in accordance with SFAS 123(r), and includes amounts for awards granted prior to 2006. In 2006, each of the directors listed received an

award of 1,070 restricted HEP units with a grant date fair value of \$40,018. The restricted HEP units will vest on August 1, 2007. The fair value of each restricted unit grant is measured on the grant date and is amortized over the vesting period. As of December 31, 2006, Messrs. Darling, Pinkerton and Stengel each held 3,509 unvested restricted units.

**COMPENSATION DISCUSSION AND ANALYSIS**

This compensation discussion and analysis ( CD&A ) is intended to provide information about our compensation objectives and policies for our principal executive officer, our principal financial officer and

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our other most highly compensated executive officers that will place in perspective the information contained in the tables that follow this discussion. Our CD&A begins with a description of our relationship with Holly with respect to reimbursement of compensation expenses and is followed by a general description of our compensation program and specific information as to its various components. Immediately following the CD&A is the Compensation Committee Report (the Committee Report ). Following the Committee Report are compensation tables describing compensation paid in 2006 and outstanding equity awards held by executives. At the end, we have provided information concerning pension benefits and change-in-control agreements.

***Overview***

HEP has no employees. HEP is managed through HLS, the general partner of HEP's general partner. The board of directors and employees providing services to HEP are retained by HLS. HLS is a subsidiary of Holly and currently has 89 employees that provide general, administrative and operational services to HEP. Throughout this discussion, the individuals included in the Summary Compensation Table on page 97, who are Matthew P. Clifton, HLS's Chairman of the Board and Chief Executive Officer, Stephen J. McDonnell, HLS's Vice President and Chief Financial Officer, P. Dean Ridenour, HLS's Vice President and Chief Accounting Officer, and James G. Townsend, Vice President Pipeline Operations, are referred to as the Named Executive Officers. Although HLS has additional executive officers, none of the additional executive officers of HLS received total compensation from HLS in 2006 in excess of \$100,000.

Under the terms of the Omnibus Agreement, we pay Holly an annual administrative fee in the amount of \$2.0 million for the provision of general and administrative services for our benefit, which may be increased as permitted under the Omnibus Agreement. Additionally, we reimburse Holly for expenses incurred on our behalf. These expenses include the costs of employee, officer, and director compensation and benefits properly allocable to HEP and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, HEP. The partnership agreement provides that the general partner will determine the expenses that are allocable to HEP. See Item 13, Certain Relationships and Related Transactions of this Form 10-K/A Annual Report for additional discussion of relationships and transactions we have with Holly. Each of the services included within the administrative fee is not assigned any particular individual value. Further, no portion of the administrative fee is subject to an allocation agreement for the services provided by the individual Named Executive Officers of HLS. Consequently, the compensation paid by Holly to the Named Executive Officers is not allocable to the annual administrative fee as reimbursement of compensation paid by Holly for services performed by the Named Executive Officers for HLS.

Other than as generally covered by the administrative fee, no expense associated with the compensation paid by Holly or HLS to the Named Executive Officers of HLS other than to Mr. Townsend is charged to or reimbursed by HEP. The only exception is with respect to equity compensation paid by HEP to the Named Executive Officers. In that case, HLS purchases the units, and HEP reimburses HLS for the purchase price.

We reimburse HLS for 58% of the expenses incurred by HLS to pay Mr. Townsend's salary, bonus, retirement and other benefits. As Mr. Townsend also provides services to Holly's subsidiary, Navajo Pipeline Co., L.P. ( Navajo Pipeline ), 42% of his cash compensation and benefits are charged to Navajo Pipeline. We reimburse HLS for 100% of the expenses incurred in providing Mr. Townsend with long-term incentive equity compensation. All compensation paid to him by Holly is fully disclosed in the tabular disclosure following this compensation discussion and analysis. Messrs. Clifton, McDonnell and Ridenour are compensated by HLS for the services they perform for HLS through awards of equity-based compensation granted pursuant to the Long-Term Incentive Plan. None of the compensation paid to Messrs. Clifton, McDonnell and Ridenour by Holly is properly allocable to the services provided by Messrs. Clifton, McDonnell and Ridenour to HLS and, therefore, only the Long-Term Incentive Plan awards granted to them are disclosed herein.

With respect to Mr. Townsend, we use a compensation approach that includes a mix of base salary, goal-driven annual cash bonus awards with target amounts expressed as percentages of salary, and annual

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long-term incentive awards consisting of restricted units of HEP. In addition, Mr. Townsend is provided with benefits that are generally available to all of Holly's salaried employees, as described more fully below.

***Objectives of Compensation Program***

Our compensation program is designed to attract and retain talented and productive executives who are motivated to protect and enhance the long-term value of HEP for its unitholders. Our objective is to tie compensation to business and individual performance and to provide total compensation competitive with our peers. Our compensation levels are reviewed in light of publicly available information on compensation paid by companies in our industry that are similar to us, taking into account HEP's size.

The HLS Compensation Committee (the Committee), comprised entirely of independent directors, administers our compensation program. The Committee determines and approves, upon the recommendation of management, the equity compensation to be paid to the Named Executive Officers and the compensation in addition to equity compensation to Mr. Townsend.

The Committee has not adopted any formal policies for allocating compensation among salaries, bonuses and equity compensation. However, in the case of Mr. Townsend, the Committee, with the assistance of management, seeks to designate an appropriate mix of cash and long-term equity incentive compensation with a goal of providing compensation to retain Mr. Townsend, while providing incentives to maximize long-term value for HEP and its unitholders. The Committee, with the assistance of management, annually performs an internal review of each of the other Named Executive Officers' equity compensation to determine whether the executives are being provided with equity awards that are effective in motivating the Named Executive Officers to continue to create long-term value for HEP. The Committee also compares the Named Executive Officers' compensation to that of comparable executives in other similarly situated businesses. Because Messrs. Clifton, McDonnell and Ridenour only commit less than half of their business time to HEP, during which time they are primarily involved in determining the long-term business goals and policies of HEP, the Committee believes that it is appropriate to compensate them only through long-term incentives to retain them during the period of time during which their policies are expected to impact our business and that will reward them in accordance with the success of those long-term goals and policies.

As part of its consideration, the Committee reviews and discusses market data and recommendations provided by an established, independent consulting firm specializing in executive compensation issues. Except with respect to his own compensation, the Committee solicits the recommendations of our Chairman of the Board and Chief Executive Officer, which the Committee considers in making its determinations.

***Overview of 2006 Executive Compensation Components***

For Mr. Townsend, the components of compensation in 2006 were:

base salary;

annual performance-based cash incentive compensation;

long-term equity incentive compensation; and

retirement and other benefits.

The Committee also reviewed the total compensation provided to Mr. Townsend in the previous year in determining compensation to be paid in 2006.

In 2006, the only component of compensation we provided for the other Named Executive Officers was long-term equity incentive compensation. All Named Executive Officers receiving equity awards received restricted units, with the exception of Mr. Clifton, who received an award of performance units. The nature of each of these types of awards is more fully described below.



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**Base Salary**

Base salary for Mr. Townsend was approved in January 2006 by the Committee based on his position and level of responsibility, individual performance, HLS's salary range for executives at his level and market practices. The Committee also reviewed competitive market data provided by an independent consultant relevant to his position. After reviewing Mr. Townsend's responsibilities, contributions to HEP's long-term value and the competitive market data, the Committee approved Mr. Townsend's salary for 2006 at \$190,000.

**Annual Incentive Cash Bonus Compensation**

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

Payment with respect to any cash bonus is contingent upon the satisfaction of the pre-established objective and subjective performance criteria described in note (3) to the Summary Compensation Table below. These performance criteria include both HEP and Holly factors, given the scope of responsibilities of our named executive officers. The total bonus pool for all executives and employees of HLS is typically determined by the Committee after the end of each year or designated performance period. At such time, the Committee also approves the granting of new awards for the current year or designated performance period. Awards for a given year are paid in cash in the first quarter of the following year.

Early in each new year, the Committee approves the performance measures and performance targets to be used for the upcoming calendar year in determining the cash bonus amounts to be paid pursuant to the Annual Incentive Plan.

Under the Annual Incentive Plan, performance targets may be based on any factors as the Chairman of the Board and Chief Executive Officer, subject to the approval of the Committee, may determine.

Mr. Townsend's target bonus amount for 2006 was approved by the Committee as a percentage of his base salary equal to 40%. Under the pre-defined performance goals described below in the narrative accompanying the Summary Compensation Table, Mr. Townsend was eligible to receive up to 200% of his target bonus amount (equal to 80% of his base salary).

In addition to the pre-defined performance criteria, the Committee has discretion to approve an increase or decrease in a Named Executive Officer's bonus. In making the determination as to whether such discretion should be applied, the Committee reviews the recommendations from management. For 2006, the Committee determined to approve a discretionary increase in Mr. Townsend's bonus. Mr. Townsend's 2006 bonus will be paid in March 2007.

**Long-Term Incentive Equity Compensation**

The Long-Term Incentive Plan was adopted by the HLS Board of Directors in August 2004 with the objective of promoting the interests of HEP by providing to management, employees and consultants of HLS and its affiliates who perform services for HLS and HEP and its subsidiaries incentive compensation awards that are based on units of HEP. The Long-Term Incentive Plan is also contemplated to enhance our ability to attract and retain the services of individuals who are essential for the growth and profitability of HEP and to encourage them to devote their best efforts to advancing our business. The Long-Term Incentive Plan is administered by the Committee.

The Long-Term Incentive Plan contemplates four potential types of awards: restricted units, phantom units, unit options and unit appreciation rights. Since the inception of HEP, we have awarded only restricted units and phantom units, the latter being referred to herein as performance unit awards.

With respect to the Named Executive Officers, in determining the appropriate amount and type of long-term incentive awards to be made, the Committee considers the amount of time devoted by each

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executive to our business, the executive's scope of responsibility, base salary and available compensation information for executives in comparable positions in similar companies.

**Restricted Units**

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

In 2006, the Named Executive Officers who were granted awards of restricted units were Messrs. McDonnell, Ridenour and Townsend. One-third of these restricted unit awards became fully vested and nonforfeitable on January 2, 2007. After December 31, 2007, two-thirds of the restricted units will be fully vested and nonforfeitable, and all the restricted units will be fully vested and nonforfeitable after December 31, 2008.

**Phantom Units and Performance Units**

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

In 2006, the only Named Executive Officer who received an award of performance units was Mr. Clifton. Performance units were awarded to Mr. Clifton given his responsibilities to HEP with respect to long-term strategy. The performance period for such award is from January 1, 2006 through December 31, 2008. Mr. Clifton may earn no less than 50% and no more than 150% of the performance units subject to his award over the course of the performance period as described more fully in the narrative accompanying the Grant of Plan Based Awards Table. Mr. Clifton's performance units may be settled only in common units of HEP.

**Acquisition of Common Units for Long-Term Incentive Equity Awards**

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

**Review of Peer Data**

Market pay levels are one of many factors we consider in setting compensation for the Named Executive Officers. To provide a frame of reference in evaluating the reasonableness and competitiveness of compensation, market pay levels are obtained from various sources including published compensation surveys and information taken from the SEC filings for a number of publicly traded master limited partnerships (MLPs). The MLP benchmark group that the Committee reviewed with management and its outside consultant was comprised of: Kinder Morgan Energy Partners, L.P., Enbridge Energy Partners,

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L.P., TEPPCO Partners, L.P., Valero L.P., Magellan Midstream Partners, L.P., Buckeye Energy Partners, L.P. and Sunoco Logistics Partners L.P., Pacific Energy Partners, L.P. (which merged with Plains All American Pipeline on November 15, 2006), Inergy L.P., Crosstex Energy, LP, TC Pipelines, LP, Mark West Energy Partners, L.P., Atlas Pipeline Partners, L.P. and Hiland Partners, LP. Our objective is to position pay levels approximating the middle range of market practice. As noted, however, market pay levels are only one factor considered, with pay decisions ultimately reflecting an evaluation of individual contribution and value to HEP.

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

Various members of management facilitate the Committee's consideration of compensation for Named Executive Officers by providing data for the Committee's review. This data includes, but is not limited to HEP's annual budget as approved by HLS's Board of Directors, HEP's financial performance over the course of the year versus that of its peers, performance evaluations of Named Executive Officers, compensation provided to the Named Executive Officers in previous years, tax-related considerations and accounting-related considerations. Management provides the Committee with guidance as to how such data impacts pre-determined performance goals set by the Committee during the previous year. When management considers a discretionary bonus to be appropriate for a Named Executive Officer, it will suggest an amount and provide the Committee with management's rationale for such bonus. Given the day-to-day familiarity that management has with the work performed by the Named Executive Officers, the Committee values management's recommendations. However, the Committee makes the final decision as to the compensation of HLS's Named Executive Officers.

***Tax and Accounting Implications***

We account for the equity compensation expense for our employees and executive officers, including our Named Executive Officers, under the rules of SFAS 123(r), which requires us to estimate and record an expense for each award of equity compensation over the vesting period of the award. Accounting rules also require us to record cash compensation as an expense at the time the obligation is accrued. As HLS is a subsidiary of a publicly-traded corporation, the Committee is mindful of the impact that Section 162(m) of the Internal Revenue Code (the Code) may have on compensatory deductions passed through to HLS's parent. To the extent Section 162(m) of the Code may ever impact the deductibility of such arrangements, the Committee intends generally to structure arrangements, where feasible, so as to minimize or eliminate the impact of the limitations of Section 162(m) of the Code. Nevertheless, to the extent that, in the opinion of the Committee, structuring compensatory arrangements to fully maximize a corporate deduction is not in the best interest of HEP, either due to the need to attract or retain top talent or for any other legitimate business reason, the Committee may approve compensation arrangements that are not deductible or not fully deductible.

***Retirement and Benefit Plans***

The cost of benefits for employees of HLS are charged monthly to us by Holly in accordance with the terms of the Omnibus Agreement. These employees participate in the available retirement and thrift plans of Holly. Holly's tax qualified defined benefit retirement plan is described below in the narrative accompanying the Pension Benefits Table. The Thrift Plan is offered to all employees of HLS, which plan is qualified under the Code. In 2006, employees had the option to participate in both the Retirement Plan and the Thrift Plan. Employees were permitted to make contributions to the Thrift Plan of 1% to 50% of their compensation. In 2006, for non-bargained employees who had at least one year of service, Holly matched employee contributions to the Thrift Plan up to 4% of their compensation. Employee contributions that were made on a tax-deferred basis were generally limited to \$15,000 per year with employees over 50 years of age able to make additional tax-deferred contributions of \$5,000. Prior to 2007, Holly's contributions in the Thrift Plan did not vest until the earlier of three years of credited service or termination of employment due to retirement, disability or death.

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Mr. Townsend is the only Named Executive Officer whose Retirement Plan and Thrift Plan benefits are charged to us by Holly.

**Change-in-Control Agreements**

On February 9, 2007, the Board of Directors of Holly approved Change-in-Control Agreements to be entered into with Mr. Townsend and David G. Blair. Mr. Blair was elected as HLS's Senior Vice President effective January 1, 2007 and beginning in 2007 is a named executive officer of HLS. The expenses associated with the Change-in-Control Agreements are not reimbursable to Holly by us.

The Change-in-Control Agreements will provide that if in connection with or within two years after a change in control of Holly, HLS or HEP (1) the executive is terminated without cause, leaves voluntarily for good reason, or is terminated as a condition of the occurrence of the transaction constituting the change in control, and (2) the executive is not offered employment with Holly or its related entities on substantially the same terms as his previous employment with HLS within 30 days after such termination, then the executive will receive the following cash severance amounts paid by Holly, and not reimbursable by HEP as outlined in the table below: (i) a cash payment equal to his accrued and unpaid salary, reimbursement of expenses and accrued vacation pay, and (ii) a lump sum amount equal to a multiple specified in the table below for such executive times (A) his annual base salary as of his date of termination or the date immediately prior to the change in control, whichever is greater, and (B) his annual bonus amount, calculated as the average annual bonus paid to him for the prior three years. In addition, the executive (and his dependents, as applicable) will receive a continuation of their medical and dental benefits for the number of years indicated in the table below for such executive. All payments and benefits due under the agreements will be conditioned on execution and nonrevocation by the executive of a release for the benefit of Holly, HLS and HEP and their related entities and agents. If amounts payable to an executive under the agreement (or pursuant to any other arrangement or agreement with Holly, HLS or HEP that are payable as a result of a change in ownership or control) (collectively, the Payments) exceed the amount allowed under section 280G of the Internal Revenue Code of 1986, as amended (the Code), for such executive by 10% or more, Holly will pay the executive a tax gross up (a Gross Up) in an amount necessary to allow the executive to retain (after all regular income and Code Section 280G taxes) a net amount equal to the total present value of the Payments on the date they are to be paid (after all regular income taxes but without reduction for Code Section 290G taxes). Conversely, the Payments will be cut back if they exceed the Code section 280G limit for the executive by less than 10%.

<b>Named Executive Officer</b>	<b>Cash Severance</b>	<b>Years for Continuation of Medical and Dental Benefits</b>
	<b>Multiple</b>	
David G. Blair	2 times	2
James G. Townsend	1 times	1

**Compensation Committee Report**

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

Members of the Compensation Committee:

Charles M. Darling, IV, Chairman

Jerry W. Pinkerton

William P. Stengel

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The table below summarizes the total compensation paid or earned by each of the Named Executive Officers in 2006. Neither we nor HLS has entered into any employment agreements with any of the Named Executive Officers, other than the change-in-control agreements described above. As previously noted, the cash compensation and benefits for Named Executive Officers other than Mr. Townsend were neither paid by us nor allocable to services those Named Executive Officers performed for us in 2006. Information regarding the compensation paid to Messrs. Clifton, McDonnell and Ridenour as consideration for the services they perform for Holly will be reported in Holly's annual proxy statement.

**Summary Compensation Table**

Name and Position Principal	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive	Change in Pension	All Other Compensation	Total
						Plan (\$)	Value (\$)	(\$)	(\$)
Matthew P. Clifton, Chairman of the Board and Chief Executive Officer	2006	\$	\$	\$286,522(1)	\$	\$	\$	\$	\$286,522
Stephen J. McDonnell, Vice President and Chief Financial Officer	2006	\$	\$	\$ 35,086(1)	\$	\$	\$	\$	\$ 35,086
P. Dean Ridenour, Vice President and Chief Accounting Officer	2006	\$	\$	\$135,406(1)	\$	\$	\$	\$	\$135,406
James G. Townsend, Vice President Pipeline Operations	2006	\$203,940(2)	\$30,000(3)	\$ 71,132(1)	\$	\$143,000(4)	\$38,555(5)	\$7,471(6)	\$494,098

(1) See our note 6 to consolidated financial statements for a discussion of the assumptions used in determining the SFAS 123(r) compensation cost of these awards. The amount for Mr. Clifton is based on an estimated payment of 125% of the performance units.

(2) Mr. Townsend's annual salary was adjusted to \$190,000 effective March 1, 2006 from his previous salary of \$175,398. The \$203,940 is comprised of: (i) ten months of salary at the March 1, 2006 rate, (ii) two months of salary at the previous rate, and (iii) an adjustment of \$17,160 to correct for a raise approved in 2005 not reflected in his previous annual salary. 42% of Mr. Townsend's salary was charged to Navajo Pipeline for services provided in 2006 by Mr. Townsend to Navajo Pipeline.

- (3) This reflects the discretionary portion of Mr. Townsend's bonus, which amount is in excess of the pre-defined target amount. 42% of this amount was charged to Navajo Pipeline for services provided in 2006 by Mr. Townsend to Navajo Pipeline.
- (4) This reflects the pre-defined target percentages that were allocated to various components as follows:  
A portion of Mr. Townsend's bonus equal to 5% of his base salary, based on Holly's pre-tax net income ( PTNI ) goal of \$197,907,000. This component was subject to being adjusted to a minimum amount of 0% and a maximum amount of 10%. As Holly exceeded its PTNI goal by 20%, this component was earned at 10%.

A portion of Mr. Townsend's bonus equal to 5% of his base salary, based on Holly's stock price performance over the year versus that of its peers. This component was subject to

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being adjusted to a minimum amount of 0% and a maximum amount of 10%. As Holly outperformed its peers, this component was earned at 10%.

A portion of Mr. Townsend's bonus equal to 20% of his base salary, based on the performance of Mr. Townsend's business unit versus the unit's budgeted goal for 2006. Given the performance of the business unit versus its internal goals for 2006, this component was earned at 40%.

A portion of Mr. Townsend's bonus equal to 10% of his base salary, based on Mr. Townsend's individual performance over the year. This component was subject to being adjusted to a minimum amount of 0% and a maximum amount of 20%. Mr. Townsend's individual performance for 2006 was evaluated through an annual performance review completed in February 2007. The review included a written assessment provided by Mr. Townsend's immediate supervisor. The assessment reviewed how well Mr. Townsend displayed each of the following six Performance Dimensions :

Interpersonal Effectiveness

Business Conduct

Leadership

Professional & Technical Competency

Results Orientation

Strengths

Each one of these performance dimensions had a variety of sub-categories that were separately reviewed. The assessment also evaluated how well Mr. Townsend had performed the individual goals he had been assigned for 2006. As a result of the assessment, Mr. Townsend was eligible to receive as part of his bonus 15% of his base salary.

(5) This reflects the following assumptions:

	<b>December 31, 2005</b>	<b>December 31, 2006</b>
Discount Rate:	5.75%	6.00%
Mortality Table:	1994 Group Annuity	RP2000 White Collar
Reserving Table:	Projected to 2020	(50% Male/ 50% Female)
Retirement Age:	62	62

(6) This reflects matching contributions made to the Thrift Plan by HLS, which was reimbursed by HEP.

**Table of Contents****2006 Grants of Plan-Based Awards**

(a) Name	(b) Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			(h) Maximum	All other Equity Awards (\$/Unit)	Base Price of Awards (i)	(j) Grant Date Fair Value
		(c) Thresh-old (\$)	(d) Target (\$)	(e) Maximum (\$)	(f) Thresh-old (#)	(g) Target (#)	(h) Maximum (#)				
Matthew P. Clifton, Chairman of the Board and Chief Executive Officer	2/16/2006	n/a	n/a	n/a	4,219(1)	8,438(1)	12,657(1)	n/a	n/a	\$ 416,099(7)	
Stephen J. McDonnell, Vice President and Chief Financial Officer	2/16/2006	n/a	n/a	n/a	n/a	n/a	n/a	1,250(2)	n/a	\$ 49,313(8)	
P. Dean Ridenour, Vice President and Chief Accounting Officer	2/16/2006	n/a	n/a	n/a	n/a	n/a	n/a	4,375(3)	n/a	\$ 172,594(8)	
James G. Townsend, Vice President Pipeline Operations	2/16/2006	n/a	\$ 76,000(4)	\$ 152,000(5)	n/a	n/a	n/a	2,500(6)	n/a	\$ 98,625(8)	

- (1) The Committee approved a grant of 8,438 performance units to Mr. Clifton. Under the terms of the grant, Mr. Clifton may earn from 50% to 150% of the performance units, based on the increase in HEP's cash distributions on the common units of HEP. The performance period for the award began on January 1, 2006 and ends on December 31, 2008. Following the completion of the performance period, Mr. Clifton shall be entitled to a payment of a number of common units equal to the result of multiplying the original grant amount of 8,438 by the performance percentage set forth below:



*3-Year Total Increase in Cash*

*Distributions Per Common Unit above*

*\$7.50 (beginning with base of \$2.50)*

*\$0.00 or less*

*\$0.62*

*\$1.27 or more*

*Performance Percentage (%) to be*

*Multiplied by Performance Units*

*50%*

*100%*

*150%*

In order to receive 100% of the units subject to this award, the cash distributions per unit declared and paid in the three years ended December 31, 2008 must total \$8.12 per unit. In order to receive 125%, the distributions per unit declared and paid for the three years ended December 31, 2008 must total \$8.44 per unit. In order to receive 150%, the distributions per unit declared and paid in the three years ended December 31, 2008 must total \$8.77 per unit. The percentages shall be interpolated between points.

In the event that Mr. Clifton's employment terminates prior to January 1, 2009, other than due to a defined change-in-control event, death, disability or retirement, he will forfeit his award. The change-in-control provisions of this award are described below under the section titled Severance and Change-in-Control Arrangements. In the event of Mr. Clifton's death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or retirement after attaining an earlier retirement age approved by the Committee in its sole discretion, Mr. Clifton shall forfeit a number of units equal to the percentage that the number of full months following the date of separation, death, disability or retirement to the end of the performance period bears to 36. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may make a payment assuming a performance percentage of up to 150% instead of the prorated number. As outlined above, the amount shown in column (f) reflects the minimum payment amount of 50%, the amount shown in column (g) reflects the target amount of 100% and the amount shown in column (h) reflects the maximum payment level of 150%.

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- (2) The Committee approved a grant of 1,250 restricted units to Mr. McDonnell. Under the terms of the grant, 1/3 of the restricted units were fully vested and nonforfeitable after December 31, 2006, 2/3 will be fully vested and nonforfeitable after December 31, 2007, and all of the restricted units will be fully vested and nonforfeitable after December 31, 2008. Other than due to a defined change-in-control event, death, disability or retirement, Mr. McDonnell shall forfeit the remaining units if his employment is terminated after December 31, 2006 and before January 1, 2008, and one-third of the units if his employment is terminated after December 31, 2007 and before January 1, 2009. The change-in-control provisions of this award are described below under the section titled Severance and Change-in-Control Arrangements. In the event of Mr. McDonnell's death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or retirement after attaining an earlier retirement age approved by the Committee in its sole discretion, Mr. McDonnell shall forfeit a number of units equal to (i) the total award times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2008 bears to 36. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Mr. McDonnell is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units.
- (3) The Committee approved a grant of 4,375 restricted units to Mr. Ridenour. Under the terms of the grant, 1/3 of the restricted units were fully vested and nonforfeitable after December 31, 2006, 2/3 will be fully vested and nonforfeitable after December 31, 2007, and all of the restricted units will be fully vested and nonforfeitable after December 31, 2008. Other than due to a defined change-in-control event, death, disability or retirement, Mr. Ridenour shall forfeit the remaining units if his employment is terminated after December 31, 2006 and before January 1, 2008, and one-third of the units if his employment is terminated after December 31, 2007 and before January 1, 2009. The change-in-control provisions of this award are described below under the section titled Severance and Change-in-Control Arrangements. In the event of Mr. Ridenour's death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or retirement after attaining an earlier retirement age approved by the Committee in its sole discretion, Mr. Ridenour shall forfeit a number of units equal to (i) the total award times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2008 bears to 36. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Mr. Ridenour is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units.
- (4) This reflects a target bonus award amount for Mr. Townsend equal to 40% of his 2006 salary.
- (5) This reflects that Mr. Townsend may receive up to 200% of the target bonus award amount.
- (6) The Committee approved a grant of 2,500 restricted units to Mr. Townsend. Under the terms of the grant, 1/3 of the restricted units were fully vested and nonforfeitable after December 31, 2006, 2/3 will be fully vested and nonforfeitable after December 31, 2007, and all of the restricted units will be fully vested and nonforfeitable after December 31, 2008. Other than due to a defined change-in-control event, death, disability or retirement, Mr. Townsend shall forfeit the remaining units if his employment is terminated after December 31, 2006 and before January 1, 2008, and one-third of the units if his employment is terminated after December 31, 2007 and before January 1, 2009. The change-in-control provisions of this award are described below under the section titled Severance and Change-in-Control Arrangements. In the event of Mr. Townsend's death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or retirement after attaining an earlier retirement age approved by the Committee in its sole discretion, Mr. Townsend shall forfeit a number of units equal to (i) the total award times (ii)

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the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2008 bears to 36. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Mr. Townsend is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units.

(7) This reflects the closing price at the date of grant and an assumed payment of 125% of the performance units.

(8) This reflects the closing price at the date of grant.

**Outstanding Equity Awards at Fiscal Year End**

Name	Equity Awards			
	Number of Units That Had Not Vested (#)	Market Value of Units That Had Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Units, Units or Other Rights That Had Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Units, Units or Other Rights That Had Not Vested (\$)
Matthew P. Clifton, Chairman of the Board and Chief Executive Officer	n/a	n/a	16,240(1)	\$ 653,660
Stephen J. McDonnell, Vice President and Chief Financial Officer	1,755(2)	\$ 70,639(4)	n/a	n/a
P. Dean Ridenour, Vice President and Chief Accounting Officer	7,096(3)	\$ 285,614(4)	n/a	n/a
James G. Townsend, Vice President Pipeline Operations	3,231(5)	\$ 130,048(4)	n/a	n/a

(1) This number reflects the combined total of A and B below:

- A. An award of 7,802 restricted units made to Mr. Clifton in February 2005. Except in the case of early termination, after December 31, 2007 (i) one third of the restricted units will vest if HEP's quarterly adjusted

net income per diluted unit is not less than \$0.56 for any quarter between October 1, 2007 and December 31, 2010; (ii) one third of the restricted units will vest if HEP's quarterly adjusted net income per diluted unit is not less than \$0.56 for any quarter between October 1, 2008 and December 31, 2010; and (iii) one third of the restricted units will vest if HEP's quarterly adjusted net income per diluted unit is not less than \$0.56 for any quarter between October 1, 2009 and December 31, 2010.

Other than due to a defined change-in-control event, death, disability or retirement, Mr. Clifton shall forfeit all of the restricted units if his employment is terminated before January 1, 2008, two-thirds of the units if his employment is terminated after December 31, 2007 and before January 1, 2009, and one-third of the units if his employment is terminated after December 31, 2008 and before January 1, 2010. The change-in-control provisions of this award are described below under the section titled Severance and Change-in-Control Arrangements. In the event of Mr. Clifton's death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or retirement after attaining an earlier retirement age approved by the Committee in its sole discretion, Mr. Clifton shall forfeit a number of units equal to (i) the total award times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on

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December 31, 2009 bears to 60. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Mr. Clifton is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units.

B. An award of 8,438 performance units made to Mr. Clifton in February 2006, which are described in footnote 1 to the Grants of Plan-Based Awards table above.

(2) This number reflects the combined total of A and B below:

A. An award of 505 restricted units made to Mr. McDonnell in February 2005. Under the terms of the grant, except in the case of early termination, 1/3 of the restricted units will be fully vested and nonforfeitable after December 31, 2007, 2/3 will be fully vested and nonforfeitable after December 31, 2008, and all of the restricted units will be fully vested and nonforfeitable after December 31, 2009.

Other than due to a defined change-in-control event, death, disability or retirement, Mr. McDonnell shall forfeit all of the restricted units if his employment is terminated before January 1, 2008, two-thirds of the units if his employment is terminated after December 31, 2007 and before January 1, 2009, and one-third of the units if his employment is terminated after December 31, 2008 and before January 1, 2010. The change-in-control provisions of this award are described below under the section titled Severance and Change-in-Control Arrangements. In the event of Mr. McDonnell's death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or retirement after attaining an earlier retirement age approved by the Committee in its sole discretion, Mr. McDonnell shall forfeit a number of units equal to (i) the total award times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2009 bears to 60. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Mr. McDonnell is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units.

B. An award of 1,250 restricted units made to Mr. McDonnell in February 2006, which are described in footnote 2 to the Grants of Plan-Based Awards table above, one-third of which vested after December 31, 2006.

(3) This number reflects the combined total of A, B and C below:

A. An award of 1,875 restricted units made to Mr. Ridenour in November 2004. Under the terms of the grant, except in the case of early termination, all of the restricted units will be fully vested on August 4, 2007.

Other than due to a defined change-in-control event, death, disability or retirement, Mr. Ridenour shall forfeit all of the restricted units if his employment is terminated before August 4, 2007. The change-in-control provisions of this award are described below under the section titled Severance and Change-in-Control Arrangements. In the event of Mr. Ridenour's death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or retirement after attaining an earlier retirement age approved by the Committee in its sole discretion, Mr. Ridenour shall forfeit a number of units equal to (i) the total award times (ii) the percentage that the number of days from August 4, 2004 to the date of death, disability or retirement bears to 1095 days. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Mr. Ridenour is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units.



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- B. An award of 846 restricted units made to Mr. Ridenour in February 2005. Under the terms of the grant, except in the case of early termination, 1/3 of the restricted units will be fully vested and nonforfeitable after December 31, 2007, 2/3 will be fully vested and nonforfeitable after December 31, 2008, and all of the restricted units will be fully vested and nonforfeitable after December 31, 2009.

Other than due to a defined change-in-control event, death, disability or retirement, Mr. Ridenour shall forfeit all of the restricted units if his employment is terminated before January 1, 2008, two-thirds of the units if his employment is terminated after December 31, 2007 and before January 1, 2009, and one-third of the units if his employment is terminated after December 31, 2008 and before January 1, 2010. The change-in-control provisions of this award are described below under the section titled Severance and Change-in-Control Arrangements. In the event of Mr. Ridenour's death, total and permanent disability as determined by the Committee in its sole discretion or retirement after attaining age 62 or retirement after attaining an earlier retirement age approved by the Committee in its sole discretion, Mr. Ridenour shall forfeit a number of units equal to (i) the total award times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2009 bears to 60. Any remaining units that are not vested will become vested. In its sole discretion, the Committee may decide to vest all of the units in lieu of the prorated number. Mr. Ridenour is a unitholder with respect to all of the restricted units and has the right to receive all distributions paid with respect to such restricted units.

- C. An award of 4,375 restricted units made to Mr. Ridenour in February 2006, which are described in footnote 2 to the Grants of Plan-Based Awards table above, one-third of which vested after December 31, 2006.
- (4) Based upon the closing market price of \$40.25 on December 29, 2006.
- (5) This number reflects the combined total of A and B below:
- A. An award of 731 restricted units made to Mr. Townsend in February 2005. Under the terms of the grant, except in the case of early termination, 1/3 of the restricted units will be fully vested and nonforfeitable after December 31, 2007, 2/3 will be fully vested and nonforfeitable after December 31, 2008, and all of the restricted units will be fully vested and nonforfeitable after December 31, 2009.
- B. An award of 2,500 restricted units made to Mr. Townsend in February 2006, which are described in footnote 2 to the Grants of Plan-Based Awards table above, one-third of which vested after December 31, 2006.

None of the equity awards previously granted to our Named Executive Officers vested in 2006.

**Pension Benefits Table**

In 2006, Mr. Townsend was eligible to receive benefits under Holly's Noncontributory Retirement Plan after one year of service, with service credited from his date of employment. The Retirement Plan provides a defined benefit to participants generally following their retirement. The compensation covered by the Retirement Plan is the average combined annual salary (and any quarterly bonus, if applicable) compensation during the highest consecutive 36-month period of employment for each employee. (An employee's term of employment was not deemed interrupted for Holly employees who were transitioned to work as HLS employees for HEP). No quarterly bonuses were provided to executives in 2006. Under the Retirement Plan, subject to certain age and length-of-service requirements, employees upon normal retirement are entitled to a life annuity with yearly pension payments equal to 1.6% of average annual base compensation during their highest compensated consecutive 36-month period of employment multiplied by total credited years of service, less 1.5% of primary Social Security benefits multiplied by

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such service years but not to exceed 45% of such benefits. Benefits up to limits set by the Code are funded by Holly's contributions to the Retirement Plan, with the amounts determined on an actuarial basis. In 2006, the Code limited benefits that could be covered by the Retirement Plan's assets to \$175,000 per year (subject to increases for future years based on price level changes) and limited the compensation that could be taken into account in computing such benefits to \$220,000 per year (subject to certain upward adjustments for future years).

Name (a)	Pension Benefits			
	Plan Name (b)	Number of Years Credited Service (#) (c)	Present Value of Accumulated Benefit (\$ (d)	Payments During Last Fiscal Year (\$ (e)
Matthew P. Clifton, Chairman of the Board and Chief Executive Officer	(1)	(1)	(1)	(1)
Stephen J. McDonnell, Vice President and Chief Financial Officer	(1)	(1)	(1)	(1)
P. Dean Ridenour, Vice President and Chief Accounting Officer	(1)	(1)	(1)	(1)
James G. Townsend, Vice President Pipeline Operations (2)	Retirement Plan	22.16	\$ 345,525	

(1) We do not reimburse HLS for pension benefits for Messrs. Clifton, McDonnell or Ridenour. Their retirement benefits are paid for by Holly.

(2) Since Mr. Townsend is over age 50 and has more than 10 years of service, he is eligible for early retirement in the Holly Retirement Plan on December 31, 2006. His early



retirement  
benefit payable  
beginning  
January 1, 2007  
is estimated to  
be \$2,373 per  
month payable  
for his lifetime  
or \$450,250  
payable as a  
lump sum.

December 31, 2006

Discount Rate 6.00%

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

Retirement Age 62

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

***Severance and Change-in-Control Arrangements***

Under the terms of the long-term incentive equity awards described above, if, in the event of a Change in Control (as defined in the applicable award agreements), (i) a Named Executive Officer's employment is terminated, other than for cause, or (ii) he resigns after a defined Adverse Change has occurred, then all restrictions on the award will lapse, the units will become vested and the vested units will be delivered to the Named Executive Officer as soon as practicable, as follows:

Name	Market Value of Unvested Units Upon a Change in Control	Equity Incentive Plan Awards: Market Value of Unvested Units Upon a Change in Control
Matthew P. Clifton	n/a	\$ 823,475(1)
Stephen J. McDonnell	\$ 70,639(2)	n/a
P. Dean Ridenour	\$ 285,614(2)	n/a
James G. Townsend	\$ 130,048(2)	n/a

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- (1) Based upon (i) a payment of 100% of the units described at the Outstanding Equity Awards at Fiscal Year End Table in footnote (1)A and (ii) a payment of 150% of the units described in footnote (1)B above, as provided for under the terms of the long-term incentive equity agreements governing the awards, at the closing price of \$40.25 on December 29, 2006.
  
- (2) Based upon a payment of 100% of the units as provided for under the terms of the long-term incentive equity agreements governing the awards of the units, at the closing price of \$40.25 on December 29, 2006.

**Item 13. Certain Relationships, Related Transactions and Director Independence**

Our general partner and its affiliates own 7,000,000 of our subordinated units and 70,000 of our common units, which combined represent a 43% limited partner interest in us. In addition, the general partner owns a 2% general partner interest in us. Transactions with the general partner are discussed below.

On February 28, 2005, we completed the transactions with Alon described on page 8 of this report, by which we acquired certain pipelines and terminals from Alon for \$120.0 million in cash and 937,500 of our Class B subordinated units and entered into our pipelines and terminals agreement with Alon. Following this transaction, Alon owns all of our Class B subordinated units, which comprise approximately 5.7% of our total outstanding equity ownership. During the year ended December 31, 2006, we received revenues of \$18.0 million from Alon pursuant to the pipelines and terminals agreement and \$6.9 million from Alon pursuant to capacity lease arrangements on our Orla to El Paso pipeline.

#### **DISTRIBUTIONS AND PAYMENTS TO THE GENERAL PARTNER AND ITS AFFILIATES**

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

##### *Operational stage*

Distributions of available cash to our general partner and its affiliates

We generally make cash distributions 98% to the unitholders, including our general partner and its affiliates as the holders of an aggregate of 7,000,000 of the subordinated units, 70,000 common units and 2% to the general partner. In addition, if distributions exceed the minimum quarterly distribution and other higher target levels, our general partner is entitled to increasing percentages of the distributions, up to 50% of the distributions above the highest target level.

Payments to our general partner and its affiliates

We pay Holly or its affiliates an administrative fee, currently \$2.0 million per year, for the provision of various general and administrative services for our benefit. The administrative fee may increase following the second and third anniversaries by the greater of 5% or the percentage increase in the consumer price index and may also increase if we make an acquisition that requires an increase in the level of general and administrative services that we receive from Holly or its affiliates. In addition, the general partner is entitled to reimbursement for all expenses it incurs on our behalf, including other general and administrative expenses. These reimbursable expenses include the salaries and the cost of employee benefits of employees of HLS who provide services to us. Please read Omnibus Agreement below.

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Our general partner determines the amount of these expenses.

Withdrawal or removal of our general partner

If our general partner withdraws or is removed, its general partner interest and its incentive distribution rights will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests.

***Liquidation stage***

Liquidation

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

**OMNIBUS AGREEMENT**

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

our obligation to pay Holly an annual administrative fee, currently in the amount of \$2.0 million, for the provision by Holly of certain general and administrative services;

Holly's and its affiliates' agreement not to compete with us under certain circumstances;

an indemnity by Holly for certain potential environmental liabilities;

our obligation to indemnify Holly for environmental liabilities related to our assets existing on the date of our initial public offering to the extent Holly is not required to indemnify us;

our three-year option to purchase the Intermediate Pipelines owned by Holly; and

Holly's right of first refusal to purchase our assets that serve Holly's refineries.

***Payment of general and administrative services fee***

Under the Omnibus Agreement we pay Holly an annual administrative fee, currently in the amount of \$2.0 million, for the provision of various general and administrative services for our benefit. The contract provides that this amount may be increased on the third anniversary following our initial public offering by the greater of 5% or the percentage increase in the consumer price index for the applicable year. Our general partner, with the approval and consent of its conflicts committee, also has the right to agree to further increases in connection with expansions of our operations through the acquisition or construction of new assets or businesses. Following the initial three-year period under this agreement, our general partner will determine the general and administrative expenses that will be allocated to us. The \$2.0 million fee includes expenses incurred by Holly and its affiliates to perform centralized corporate functions, such as legal, accounting, treasury, information technology and other corporate services, including the administration of employee benefit plans. The fee does not include salaries of pipeline and terminal personnel or other employees of HLS or the cost of their employee benefits, such as 401(k), pension, and health insurance benefits which are separately charged to us by Holly. We also reimburse Holly and its affiliates for direct general and administrative expenses they incur on our behalf.

***Noncompetition***

Holly and its affiliates have agreed, for so long as Holly controls our general partner, not to engage in, whether by acquisition or otherwise, the business of operating crude oil pipelines or terminals, refined

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products pipelines or terminals, Intermediate Pipelines or terminals, truck racks or crude oil gathering systems in the continental United States. This restriction will not apply to:

any business operated by Holly or any of its affiliates at the time of the closing of our initial public offering;

any business conducted by Holly with the approval of our conflicts committee;

any crude oil pipeline or gathering system acquired or constructed by Holly or any of its affiliates after the closing of our initial public offering that is physically interconnected to Holly's refining facilities;

any business or asset that Holly or any of its affiliates acquires or constructs that has a fair market value or construction cost of less than \$5.0 million; and

any business or asset that Holly or any of its affiliates acquires or constructs that has a fair market value or construction cost of \$5.0 million or more if we have been offered the opportunity to purchase the business or asset at fair market value, and we decline to do so with the concurrence of our conflicts committee.

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

***Indemnification***

Under the Omnibus Agreement, Holly indemnifies us for ten years from July 13, 2004 against certain potential environmental liabilities associated with the operation of the assets and occurring before the closing date of our initial public offering. Holly's maximum liability for this indemnification obligation will not exceed \$15.0 million and Holly will not have any obligation under this indemnification until our losses exceed \$200,000. Holly has agreed to provide \$2.5 million of additional indemnification above that previously provided in the Omnibus Agreement for environmental noncompliance and remediation liabilities occurring or existing before the closing date of the Intermediate Pipelines transaction, bringing the total indemnification provided to us from Holly to \$17.5 million. Of this total, indemnification above \$15.0 million relates solely to the Intermediate Pipelines.

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

***Right of first refusal to purchase our assets***

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

**PIPELINES AND TERMINALS AGREEMENTS**

At the time of our initial public offering, we entered into a pipelines and terminals agreement with Holly, and in July 2005, we entered into an Intermediate Pipelines agreement, both as described under Business Agreements with Holly under Item 1 of this Form 10-K/A Annual Report.

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

**SUMMARY OF TRANSACTIONS WITH HOLLY**

Pipeline and terminal revenues received from Holly were \$52.9 million, \$44.2 million and \$45.3 million for the years ended December 31, 2006, 2005 and 2004, respectively. These amounts include the revenues received under the pipelines and terminals agreements as well as revenues received by the predecessor prior to formation in July 2004.

Holly charged general and administrative services under the Omnibus Agreement of \$2.0 million for the years ended December 31, 2006 and 2005 and \$0.9 million for the year ended December 31, 2004.

We reimbursed Holly for costs of employees supporting our operations of \$7.7 million, \$6.5 million and \$2.2 million for the years ended December 31, 2006, 2005 and 2004.

In the years ended December 31, 2006 and 2005, Holly reimbursed \$0.2 million to us for certain costs paid on their behalf. In the year ended December 31, 2004, we reimbursed Holly \$3.9 million for certain formation, debt issuance and other costs paid on our behalf.

In the years ended December 31, 2006, 2005 and 2004, we distributed \$20.3 million, \$16.5 million and \$3.2 million, respectively, to Holly as regular distributions on its subordinated units, common units and general partner interest.

We acquired the Intermediate Pipelines from Holly in July 2005, which resulted in payment to Holly of a purchase price of \$71.9 million in excess of the basis of the assets received. See Note 3 to our consolidated financial statements for further information on the Intermediate Pipelines transaction.

In the year ended December 31, 2004, we distributed \$125.6 million to Holly concurrent with our initial public offering and we repaid \$30.1 million to Holly for short-term borrowings that originated in 2003.

**REVIEW, APPROVAL OR RATIFICATION OF TRANSACTIONS WITH RELATED PERSONS**

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

There are no transactions disclosed in this Item 13 entered into since January 1, 2006 that were not required to be reviewed, ratified or approved pursuant to our Code of Business Conduct and Ethics or with respect to which our policies and procedures with respect to conflicts of interest were not followed.

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**Part IV**

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

(a) Documents filed as part of this report

(1) Exhibits

31.1\* Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

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

\* Filed herewith.

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HOLLY ENERGY PARTNERS, L.P.

**SIGNATURES**

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

HOLLY ENERGY PARTNERS, L.P.  
(Registrant)

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

By: HOLLY LOGISTIC SERVICES, L.L.C.  
its General Partner

Date: November 6, 2007

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

/s/ P. Dean Ridenour  
P. Dean Ridenour  
Vice President and Chief Accounting Officer  
and Director (Principal Accounting Officer)

/s/ Stephen J. McDonnell  
Stephen J. McDonnell  
Vice President and Chief Financial Officer  
(Principal Financial Officer)

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