Lifevantage Corp
Form 10-K
September 01, 2015

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

FORM 10-K
(Mark One)
ý ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended June 30, 2015
¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission file number: 001-35647

LIFEVANTAGE CORPORATION
(Exact name of registrant as specified in its charter)

Colorado	90-0224471
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

9785 S. Monroe, Ste 300
Sandy, UT 84070
(Address of principal executive offices, including zip code)

Registrant's telephone number: (801) 432-9000
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý
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 ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark 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 this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The aggregate market value of the registrant's common stock held by non-affiliates as of December, 31, 2014, the end of the registrant's second fiscal quarter, was approximately $128.5 million, based on a closing market price of $1.30 per share.

The number of shares of common stock (par value $0.001) outstanding as of August 27, 2015, was 97,537,215 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be filed subsequent to the date hereof with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant’s fiscal year 2015 annual meeting of shareholders are incorporated by reference into Part III of this report. Such definitive proxy statement will be filed with the Commission not later than 120 days after the end of the registrant’s fiscal year ended June 30, 2015.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report and the information incorporated by reference herein may contain "forward-looking statements" (as such term is defined in Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended). These statements, which involve risks and uncertainties, reflect our current expectations, intentions, or strategies regarding our possible future results of operations, performance, and achievements. Forward-looking statements include, without limitation: statements regarding future products or product development; statements regarding future selling, marketing, general and administrative costs and research and development spending; statements regarding expansion in new and existing markets; statements regarding our product development strategy; statements regarding the future performance of our business; and statements regarding future financial performance and results of operations. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, applicable rules of the Securities and Exchange Commission and common law.

These forward-looking statements may be identified in this report and the information incorporated by reference by words such as "anticipate", "believe", "could", "estimate", "expect", "intend", "plan", "predict", "project", "should" and simila expressions, including references to assumptions and strategies. These statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties, and contingencies, which could cause our actual results, performance, or achievements to differ materially from those expressed in, or implied by, such statements.

The following factors are among those that may cause actual results to differ materially from our forward-looking statements:

- Inability to strengthen our business and properly manage distractions among our distributors in Japan;
- Inability to manage existing markets, open new international markets or expand our operations;
- Inability of new products to gain distributor or market acceptance;
- Our inability to execute our product launch process due to increased pressure on our supply chain, information systems and management;
- Disruptions in our information technology systems;
- Inability to comply with financial covenants imposed by our credit facility;
- Inability to protect against cyber security risks and to maintain the integrity of data;
- The impact of our debt service obligations and restrictive debt covenants;
- Claims against us as a result of our independent distributors failing to comply with applicable legal requirements or our policies and procedures;
- International trade or foreign exchange restrictions, increased tariffs, foreign currency exchange;
- Deterioration of global economic conditions;
- Inability to maintain appropriate level of internal control over financial reporting;
- Inability to raise additional capital if needed;
- Exposure to environmental liabilities stemming from past operations and property ownership;
- Significant dependence upon a single product for revenue;
- Inability to retain independent distributors or to attract new independent distributors on an ongoing basis;
- High quality material for our products may become difficult to obtain or expensive;
- Improper actions by our independent distributors that violate laws or regulations;
- Dependence on third parties to manufacture our products;
- Disruptions to the transportation channels used to distribute our products;
- We may be subject to a product recall;

- Government regulations on direct selling activities may prohibit or severely restrict our business model;
- Unfavorable publicity on our business or products;
- Our direct selling program could be found to not be in compliance with current or newly adopted laws or regulations;
- Legal proceedings may be expensive and time consuming;
- Strict government regulations on our business;
- Regulations governing the production or marketing of our products;
- Risk of investigatory and enforcement action by the federal trade commission;
- Government authorities may question our tax positions or transfer pricing policies or change their laws in a manner that could increase our effective tax rate or otherwise harm our business;
- Failure to comply with anti-corruption laws;
- Inability to build and integrate our new management team could harm our business;
- Loss of, or inability to attract, key personnel;
- We could be held responsible for certain taxes or assessments relating to the activity of our independent distributors;
- Competition in the dietary supplement market;
- Our inability to protect our intellectual property rights;
- Third party claims that we infringe on their intellectual property;
- Product liability claims against us;
- Economic, political, foreign exchange and other risks associated with international operations;
- Our inability to regain compliance with the Nasdaq Capital Market continued listing standards;
- Volatility of the market price of our common stock;
- Substantial sales of shares may negatively impact the market price of our common stock;
- Significant dilution of outstanding voting shares if holders of our existing warrants and options exercise their securities for shares of common stock; and
- We have not paid dividends on our capital stock, and we do not currently anticipate paying dividends in the foreseeable future.

When considering these forward-looking statements, you should keep in mind the cautionary statements in this report and the documents incorporated by reference. Except as required by law, we have no obligation and do not undertake to update or revise any such forward-looking statements to reflect events or circumstances after the date of this report.

TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	5
Item 1A. Risk Factors	15
Item 1B. Unresolved Staff Comments	28
Item 2. Properties	28
Item 3. Legal Proceedings	28
Item 4. Mine Safety Disclosures	28
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6. Selected Financial Data	30
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	41
Item 8. Financial Statements and Supplementary Data	42
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	42
Item 9A. Controls and Procedures	42
Item 9B. Other Information	43
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	43
Item 11. Executive Compensation	43
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	43
Item 13. Certain Relationships and Related Transactions, and Director Independence	44
Item 14. Principal Accountant Fees and Services	44
PART IV	
Item 15. Exhibits, Financial Statement Schedules	44
Signatures	45

PART I

ITEM 1 — BUSINESS

Overview

LifeVantage Corporation is a company dedicated to helping people achieve their health, wellness and financial independence goals. We provide quality, scientifically-validated products and a financially rewarding network marketing business opportunity to customers and independent distributors who seek a healthy lifestyle and financial freedom. We sell our products in the United States, Japan, Hong Kong, Australia, Canada, Philippines, Mexico and Thailand.

We engage in the identification, research, development and distribution of advanced nutraceutical dietary supplements and skin care products, including Protandim®, our scientifically-validated dietary supplement, LifeVantage TrueScience®, our line of revolutionary anti-aging skin care products, Canine Health®, our companion pet supplement formulated to combat oxidative stress in dogs, and Axio®, our energy drink mixes.

We were incorporated in Colorado in June 1988 under the name Andraplex Corporation. We changed our corporate name to Yaak River Resources, Inc. in January 1992, and subsequently changed it again in October 2004 to Lifeline Therapeutics, Inc. In October 2004 and March 2005, we acquired all of the outstanding common stock of Lifeline Nutraceuticals Corporation. In November 2006, we changed our name to LifeVantage Corporation. From our fiscal year 2005 until our fiscal year 2009, we marketed and sold a single product, Protandim®, through traditional retail stores. In October 2008, we announced that we were transitioning our business model from a traditional retail model to a network marketing model in which Protandim® would be sold primarily through our network of independent distributors. Since entering network marketing, we have increased our geographic reach by entering new international markets and increased our product offering by introducing additional scientifically-validated products.

Fiscal Year 2015 Highlights

We expanded our product offering in October 2014 by introducing Axio®, our energy mixes. Axio® is formulated to promote alertness and support mental performance. We currently have additional products in development. We intend to conduct additional research and development on these and other product candidates before introducing them through our network of independent distributors. We believe these new product lines, together with Protandim®, show our commitment to delivering scientifically backed products that help people feel, look and perform better.

We commenced our partnership with Real Salt Lake of Major League Soccer in January 2014. Our partnership with Real Salt Lake includes placement of our logo on the front of the team's jersey as well as strategic placement of our logo around the stadium and on televised broadcasts of games. During fiscal 2015, we expanded this partnership by hosting distributor recruiting events at Real Salt Lake games in the U.S. and Canada. We believe the partnership provides the LifeVantage brand with high-impact exposure and recognition in stadiums, on television, in advertising and through player appearances across the country and around the world.

We made significant changes to our executive management team during fiscal year 2015. Most significantly, in May 2015, we appointed Darren Jensen as our President and Chief Executive Officer. Prior to joining LifeVantage, Mr. Jensen has spent his entire career in the direct selling industry. Most recently, he served as President-Americas beginning in June 2014 and prior to that, Chief Sales Officer from September 2012 to June 2014 at Jeunesse Global, a personal care and nutrition direct selling company. Prior to Jeunesse, Mr. Jensen served as Chief Sales Officer at Ampegy, a direct selling company focused on the energy industry. Prior to Ampegy, Mr. Jensen served as Executive Vice President and Corporate General Manager at Agel Enterprises, a nutritional supplements direct selling company.

Our Competitive Advantages

We believe we have a competitive advantage in several key areas:

- Our Compensation: We believe our compensation plan is one of the more financially rewarding in the direct selling industry. Our percentage of sales paid to independent distributors as compensation and incentive is one of the highest percentages reported in the direct selling industry. Our compensation plan also enables independent distributors to earn compensation early and often as they sell our products. Some elements of our compensation plan are paid weekly, allowing new independent distributors to receive compensation quickly. We believe more frequent payments of compensation helps us retain new independent distributors by allowing them to experience success soon after enrolling. We also offer a variety of incentive programs to our independent distributors for achieving specified sales

goals. For example, our My LifeVentures® is an incentive program that enables independent distributors to earn the title to a new Jeep Wrangler by achieving and maintaining specified sales goals. We also offer various training

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resources to help our independent distributors become more effective. We believe our compensation plan, incentive programs and training resources help to motivate and prepare our independent distributors for success.

- Our Products: We offer quality, scientifically-validated products focused on helping individuals look, feel and perform better. Protandim® is a patented dietary supplement clinically proven to combat oxidative stress, a natural consequence of cellular metabolism associated with many of the undesirable effects of aging. Our skin care line, LifeVantage TrueScience®, is a combination of scientifically based anti-aging skin care products formulated to target the visible signs of aging on the skin. Axio®, introduced in November 2014, is our new line of energy drink mixes formulated to promote alertness and support mental performance. Our companion pet supplement, Canine Health®, incorporates some of the same active ingredients as Protandim® to combat oxidative stress in dogs. We believe our significant number of preferred customers who regularly purchase our products without the intention of becoming independent distributors is a strong indicator of the benefits of our products.
- Our Culture: We are committed to creating a culture for our independent distributors and employees that focuses on ethical, legal and transparent business practices. At enrollment, our independent distributors agree to abide by our policies and procedures. Our policies and procedures, when followed, ensure that our independent distributors comply with applicable laws and regulations. Our compliance department monitors the activities of our independent distributors as part of our effort to enforce our policies and procedures. Similarly, our code of business conduct and ethics sets forth guidelines and expectations for our employees. We believe our ethical, legal and transparent culture attracts highly qualified employees and independent distributors who share our commitment to these principles.
- Our Employees: We believe that our employees are an essential asset. We have a dedicated team of professionals that support our system of independent distributors, work to generate long-term value for our shareholders and contribute to the broader public through LifeVantage Legacy and other charitable programs. In turn, we offer competitive compensation, invest in our employees' careers and direct their focus on the long-term goals of our independent distributors and shareholders.

Scientific Background

Oxidative Stress

Oxidative stress refers to the cellular and tissue damage caused by chemically reactive oxygen species that is generated as a natural result of cellular metabolism and the body's use of oxygen to generate energy. Levels of reactive oxygen species, also known as ROS, and free radicals can be elevated under a wide variety of conditions, including radiation, UV light, smoking, excessive alcohol consumption, as well as medical conditions involving inflammation, cardiovascular disease, neurodegenerative disease, diabetes and advancing age. Elevated ROS levels inflict structural damage on nucleic acid, lipid, carbohydrate and protein components of cells, thereby directly contributing to or exacerbating tissue dysfunction, disease and age-related debilitation.

Cellular antioxidant enzymes normally serve to inactivate ROS and maintain levels of ROS at those compatible with normal cell function. Important among these cellular antioxidant enzymes are superoxide dismutase and catalase. However, the levels of these protective antioxidant enzymes decrease with age and in a number of disease conditions. As we age and the levels of antioxidant enzymes decrease, oxidative stress levels increase significantly and our body is unable to maintain homeostasis relative to elevated ROS levels.

Oxidative stress is widely believed to be a key factor in many of the undesirable effects of aging because it promotes cell death. Additionally, high levels of oxidative stress have also been linked as a causative or associated factor in over 100 diseases.

Nrf2 Activation

Nuclear factor (erythroid-derived 2)-like 2, also known as NFE2L2 or Nrf2, is a transcription factor that in humans is encoded by the NFE2L2 gene. Nrf2 is the master regulator of the antioxidant response, which is important for the amelioration of oxidative stress. Because Nrf2 is able to induce gene activity important in combating oxidative stress, thereby activating the body’s own protective response, it helps protect from a variety of complications related to oxidative stress.

Under normal or unstressed conditions, Nrf2 resides in the cytoplasm of the cell, outside the nucleus, and is targeted for degradation. When activated, Nrf2 is able to move into the nucleus, where it promotes the expression of several thousand genes, including those that encode antioxidant enzymes as well as anti-inflammatory and stress response

proteins.

In recent years, Nrf2 has become the subject of intense research. A common theme in much of this research is that activation of Nrf2 upregulates a coordinated antioxidant response and is therefore capable of protecting against oxidative

stress-related injury and inflammatory disease in a wide variety of animal models. Therefore, Nrf2 represents an important therapeutic target.

Research and Development

Historically, we have focused our research and development efforts on creating and supporting scientifically-validated, yet highly demonstrative products under the Protandim®, TrueScience®, Canine Health®, and Axio® federation of brands. We anticipate that our future research and development efforts will be focused on creating, developing and evaluating new products that are consistent with our commitment to provide quality, scientifically-validated products. We intend to build on our foundation of combating oxidative stress and targeting specific benefit areas that help individuals feel, look and perform better, including exploring products focused on weight-loss and gut health. We also plan to continue sponsoring additional studies on our current products in an effort to further validate the benefits they provide.

Product Overview

Protandim®

Protandim® is a patented dietary supplement that has been shown in a clinical trial to reduce the age-dependent increase in markers of oxidative stress, and has also been shown to provide substantial benefits to combat the variety of negative health effects linked to oxidative stress.

Protandim® combats oxidative stress by increasing the body’s natural antioxidant protection at the genetic level. The unique blend of phytonutrients in Protandim® signals the activation of Nrf2 to increase production of antioxidant enzymes, specifically superoxide dismutase and catalase, and other cell-protective gene products. The body's internally produced antioxidant enzymes provide a better defense against oxidative stress than externally derived sources of antioxidants such as Vitamin C, Vitamin E and Coenzyme Q-10. Unlike externally derived sources of antioxidants, these enzymes are “catalytic,” which means these enzymes are not used up upon neutralizing free radicals.

We hold six U.S. and five international patents relating to Protandim®. We believe these patents set Protandim® apart from other dietary supplements and protect the original formula as well as certain formula modifications we could create to extend our Protandim® product line. We sell Protandim® in two formulas, one for the Japan market and the other formula for all other markets.

Protandim® has been, and is currently, the subject of numerous independent scientific studies at various universities and research facilities including The Ohio State University, Louisiana State University, University of Colorado Denver, Virginia Commonwealth University, Colorado State University and Texas Tech University. The results of these studies have been published in a variety of peer-reviewed scientific journals, including Free Radical Biology & Medicine, Enzyme Research, Circulation-the scientific journal of the American Heart Association, American Journal of Physiology-Lung Cellular and Molecular Physiology, PLoS One, Journal of Dietary Supplements, Molecular Aspects of Medicine, Oxidative Medicine and Cell Longevity, Exercise & Sports Science Reviews, Clinical Pharmacology, and The FASEB Journal.

LifeVantage TrueScience®

We sell a full line of anti-aging skin care products under our LifeVantage TrueScience® brand, which consists of:

- TrueScience® Ultra Gentle Facial Cleanser: a concentrated, ultra-rich cleanser used to remove impurities and light make-up without drying or stripping natural oils in the skin.
- TrueScience® Perfecting Lotion: a hybrid lotion formulated for smoother, radiant and brighter looking skin.
- TrueScience® Eye Corrector Serum: a serum that noticeably improves the visible signs of fine lines, creases and wrinkles around the entire eye area, diminishes puffiness above and below the eye, and evens skin tone and dark circles that are visible signs of premature aging.
- TrueScience® Anti-Aging Cream: a cream that deeply moisturizes and helps to combat the appearance of fine lines and wrinkles.

These products were tested in an independent third-party clinical study and were shown to reduce the visible signs of aging by utilizing Nrf2 technology to mitigate the visible effects of skin damage caused by oxidative stress. Our LifeVantage TrueScience® skin care products leverage our research on Nrf2 activation and oxidative stress.

Canine Health®

Canine Health® is a supplement specially formulated to combat oxidative stress in dogs through Nrf2 activation. Canine Health® builds upon the active ingredients in Protandim® to reduce oxidative stress, and support joint function, mobility and flexibility in dogs. Canine Health® received the Quality Seal from the National Animal Supplement Council.

Axio®

We introduced our energy drink, Axio®, in October 2014. Axio® is formulated to promote alertness and support mental performance. LifeVantage energy drink powders deliver sustained energy, as well as improved mental focus and promote a positive mood. Axio® is derived from a unique combination of scientifically validated ingredients.

Distribution of Products

We believe our products are well suited for person-to-person sales through our direct selling model. This model allows our independent distributors to educate our customers regarding the benefits of our unique products more thoroughly than other business models. Our direct selling model also allows our independent distributors to offer personalized customer service to our customers and encourage regular use of our products.

Product Return Policy

All products purchased directly from us include a customer satisfaction guarantee. Subject to some exceptions based on local regulations, customers may return unopened product to us within 30 days of purchase for a refund of the purchase price less shipping and handling. In addition, our inventory repurchase program allows independent distributors who terminate their distributorship to return certain amounts of unopened, unexpired product purchased within the prior 12 months for a refund of the purchase price less a 10% restocking fee. The amount of inventory we will repurchase from an independent distributor is subject to specified consumption limitations.

Customers

We generally categorize our customers as independent distributors and preferred customers.

Independent Distributors

An independent distributor in our company is someone who participates in our network marketing business opportunity by purchasing our products at wholesale prices and selling our products to others interested in the products. We believe our independent distributors are typically entrepreneurs who believe in our products and desire to earn income by building a business of their own. Many of our independent distributors are attracted by the opportunity to sell unique, scientifically-validated products without incurring significant start-up costs. Independent distributors sign a contract with us that includes a requirement that they adhere to strict policies and procedures. Independent distributors purchase product from us for individual consumption, but also purchase small quantities of product from us to use for demonstrations and one-off, person-to-person retailing opportunities. They also spend a large amount of their time encouraging others to purchase our products, either for personal consumption or resale. While we provide support, product samples, brochures, magazines, and other sales and marketing materials, independent distributors are primarily responsible for attracting, enrolling and educating new independent distributors with respect to our products and compensation plan. An independent distributor creates multiple levels of compensation by selling our products and enrolling new independent distributors who sell our products. These newly enrolled independent distributors form a “downline” for the independent distributor who enrolled them. If downline independent distributors enroll new independent distributors who purchase our products, they create additional levels of compensation and their downline independent distributors remain in the same downline network as the original enrolling independent distributor. We pay commissions only upon the sale of our products. We do not pay commissions for enrolling independent distributors.

We define “active independent distributors” as those independent distributors who have purchased product from us for retail or personal consumption during the prior three months. As of June 30, 2015, we had approximately 65,000 active independent distributors compared to approximately 68,000 active independent distributors as of June 30, 2014.

Independent Distributor Compensation

We believe our compensation plan is one of the more financially rewarding in the direct selling industry. Our percentage of sales paid to independent distributors as compensation and incentives is one of the highest percentages reported in the direct selling industry. Some elements of our compensation plan are paid weekly. We believe this gives

us a competitive advantage and helps retain new distributors by allowing them to experience success quickly from their efforts. Our compensation plan is intended to appeal to a broad cross-section of people, particularly those seeking to supplement family income, start a home-

based business or pursue entrepreneurial opportunities full or part-time. Our independent distributors earn compensation on their product sales and product sales made by independent distributors within their sales organization, or "downline." Our independent distributors can also earn money by purchasing product from us at our wholesale cost and selling that product to others at the retail cost. We generally pay commissions in the local currency of the independent distributor’s home country.

Independent Distributor Motivation and Training

Our revenue depends in part on the success and productivity of our independent distributors. Our Master Track program is designed to increase our independent distributors' productivity and increase their potential for success. The Master Track program includes the following components:

- Blueprint for Prosperity: professionally-designed training materials independent distributors can utilize in their sales efforts;
- Pro Audio Series: our weekly audio series presented by our independent distributor leaders providing training and tips on becoming more productive independent distributors;
- Premier Schools: monthly, company-sponsored events held throughout the U.S., and less frequently in Japan, designed to deliver training and motivation to independent distributors;
- Elite Academy and Global Convention: quarterly and annual company-sponsored events intended to provide training and motivation to our independent distributors; and
- Promotions and Incentive Trips: we hold special promotions and incentive trips from time to time in order to motivate our independent distributors to accomplish specific sales goals.

In addition to the Master Track program, we have an on-line media channel, LVN Media, through which we deliver educational and motivational content to our independent distributors. The Master Track program and LVN Media are important parts of our efforts to increase the productivity and potential for success of our independent distributors. We are evaluating how to incorporate new technology and training opportunities to improve distributor success.

Distributor Compliance Activities

Given that our independent distributors are independent contractors, we do not control or direct their promotional efforts. We do, however, require that our independent distributors abide by policies and procedures that require them to act in an ethical manner and in compliance with applicable laws and regulations. As a member of the United States Direct Selling Association and similar organizations in many of the markets where we do business, we are also subject to the ethical business practices and consumer service standards required by the industry's code of ethics.

Independent distributors must represent to us that their receipt of commissions is based on retail sales and substantial personal sales efforts. We must produce or pre-approve all sales aids used by distributors such as brochures and online materials. Products may be promoted only by personal contact or by collateral materials produced or approved by us. Independent distributors may not use our trademarks or other intellectual property without our consent.

We monitor and systematically review alleged independent distributor misbehavior through our internal compliance department. If we determine one of our independent distributors has violated any of our policies and procedures, we may discipline the independent distributor and may terminate the independent distributor’s rights to distribute our products. When necessary, we have brought legal action against independent distributors, or former independent distributors, to enforce our policies and procedures. Short of termination or legal action, we may impose sanctions against independent distributors whose actions are in violation of our policies and procedures. Such sanctions may include warnings, probation, withdrawal or denial of an award, suspension of privileges of a distributorship, fines and/or withholding of commissions until specified conditions are satisfied, or other appropriate injunctive relief.

Preferred Customers

Preferred customers are customers who purchase products directly from us at our wholesale price on a monthly auto-ship basis for personal consumption, without the intent to resell or earn commissions from the sale of products. A preferred customer may enroll as an independent distributor at any time if he or she becomes interested in reselling the product. We believe our preferred customers are a great source of word-of-mouth advertising for our products. We also believe our large base of preferred customers validates the benefits of our products, separate from the direct selling business opportunity.

- 9-

We define an “active preferred customer” as a preferred customer who has purchased product from us within the prior three months. As of June 30, 2015, we had approximately 115,000 active preferred customers compared to approximately 128,000 active preferred customers as of June 30, 2014.

Sales of Our Products

We accept orders for our products through our own website at www.lifevantage.com and through personalized websites we provide to our independent distributors, which we refer to as “Virtual Offices”. Orders placed through Virtual Offices and through our website are processed daily at our fulfillment centers, where orders are shipped directly to the consumer.

We offer toll-free numbers for our independent distributors and other customers to order product or ask questions. Our customer service representatives assist customers in placing orders through our web order processing system, answer questions, track packages, and initiate refunds. The customer service representatives receive extensive training about our products and our direct selling business model. Independent distributors and preferred customers generally pay for products by credit card, prior to shipment, and as a result, we carry minimal accounts receivable.

Seasonality

In addition to general economic factors, we are impacted by seasonal factors and trends such as major cultural events and vacation patterns. We believe that direct selling in Japan and the United States is also generally negatively impacted during our first fiscal quarter, from July 1 through September 30, when many individuals, including our independent distributors, traditionally take vacations.

Although our product launch process may vary by market, we may introduce new products to our independent distributors and customers through limited-time offers and promotions. The limited-time offers and promotions typically generate significant activity and a high level of purchasing, which may result in a higher than normal increase in revenue during the quarter of the limited-time offer and skew year-over-year and sequential comparisons.

Geographic Information

We currently sell and distribute products in the United States, Japan, Hong Kong, Australia, Canada, Philippines, Mexico and Thailand. In fiscal year 2015, revenue generated in the United States accounted for approximately 70% of our total revenue and revenue generated from Japan accounted for approximately 22% of our total revenue. For reporting purposes, we generally divide our markets into two geographic regions: Americas and Asia/Pacific. The following table sets forth net revenue information by region for the periods indicated (in thousands):

	For the years ended June 30,								
	2015			2014			2013		
Americas	$138,118	72.6	%	$141,227	66.0	%	$133,046	63.9	%
Asia/Pacific	52,218	27.4	%	72,741	34.0	%	75,132	36.1	%
Total	$190,336	100	%	$213,968	100	%	$208,178	100	%

Additional comparative revenue and related financial information is presented in the section captioned "Segment Information" in Note 2 to our Consolidated Financial Statements.

Marketing

We have a sales, marketing, public relations and customer service group consisting of 166 full-time employees as of June 30, 2015. We utilize our network of independent distributors located throughout the United States, Australia, Hong Kong, Japan, Canada, Philippines, Mexico and Thailand to market and sell our products.

Raw Materials and Manufacturing

We outsource the primary manufacturing, fulfillment, and shipping components of our business to companies we believe possess a high degree of expertise. We believe outsourcing provides us access to advanced manufacturing process capabilities and expertise without incurring fixed costs associated with manufacturing our own products.

We currently outsource the manufacturing of Protandim® to multiple contract manufacturers and use a single contract manufacturer for each of our Canine Health®, Axio®and LifeVantage TrueScience® products. Our contract manufacturers of Protandim® have a legal obligation to comply with the current Good Manufacturing Practices regulations that are applicable to those who manufacture, package, label and hold dietary supplements. Additionally, we are subject to regulations that, among other things, obligate us to know what and how manufacturing activities are performed so that we can make decisions related to

- 10-

whether the packaged and labeled product conforms to our established specifications and whether to approve and release product for distribution. We maintain and qualify alternative manufacturing options in order to keep our costs low, maintain the quality of our products, and be prepared for unanticipated spikes in demand or manufacturing failure. Our contract manufacturers deliver products to our fulfillment centers based on our purchase orders.

We acquire raw materials for our products from third-party suppliers. Although we generally have good relationships with our suppliers, we believe we could replace any of our current suppliers without great difficulty or significant increase to our cost of goods sold. We also have ongoing relationships with secondary and tertiary suppliers. Please refer to "Risk Factors - High quality material for our products may be difficult to obtain or expensive" for a discussion of the risks and uncertainties associated with our sourcing of raw materials.

Product Liability and Other Insurance

We have product liability insurance coverage for our products that we believe is adequate for our needs. We also maintain commercial property and liability coverage and directors' and officers' liability insurance.

Intellectual Property

Protandim® is a proprietary, patented dietary supplement formulation for enhancing antioxidant enzymes including superoxide dismutase and catalase. The patents and patent applications protecting this formulation are held by our wholly-owned subsidiary, Lifeline Nutraceuticals Corporation.

We use commercially reasonable efforts to protect our intellectual property and license rights through patent protection, trade secrets, and contractual protections, and intend to continue to develop a strong brand identity in the Protandim® trademark.

Our intellectual property is covered, in part, by six issued U.S. patents and five issued foreign patents in Australia, Canada, China, Japan and India. A corresponding foreign patent application is pending in Europe. Our patents and patent applications claim the benefit of priority of seven U.S. provisional patent applications, the earliest of which was filed on March 23, 2004, and relate to compositions, methods of use, and methods of manufacture of various compositions, including those embodied by the Protandim® formulation. The expected duration of our patent protection via granted patents is through approximately March 2025.

We also continue to protect our products and brands using trademarks. We have filed and successfully procured registered trademarks for Protandim®, LifeVantage®, and TrueScience® in many countries around the world, and we have pending trademark applications in many other countries. We anticipate seeking protection in other countries as we deem appropriate.

In order to protect the confidentiality of our intellectual property, including trade secrets, know-how and other proprietary technical and business information, it is our policy to limit access to such information to those who require access in order to perform their functions and to enter into agreements with employees, consultants and vendors to contractually protect such information.

Competition

Direct Selling Companies

We compete with other direct selling companies, many of which have longer operating histories and greater visibility, name recognition and financial resources than we do. We also compete with newer direct selling companies that attempt to solicit our independent distributors by offering the possibility of a more financially rewarding opportunity by being among the company's early distributor base. We compete for new independent distributors with these companies on the basis of our business opportunity, product offerings, compensation plan, management and our operations. In order to successfully compete in the direct selling industry and attract and retain independent distributors, we must maintain the attractiveness of our business opportunity, product offerings and compensation plan.

Dietary Supplement Market

We compete with other companies that sell dietary supplements. We believe the dietary supplement market is a highly fragmented and competitive market. We believe competition in the dietary supplement market is based primarily on quality, price, efficacy of products, brand name and recognition of product benefits. In the dietary supplement industry, our competition includes numerous nutritional supplement companies, pharmaceutical companies and packaged food and beverage companies. Many of these companies have broader product lines, larger sales volumes

and greater financial resources than we do. Additionally, some of these companies are able to compete more effectively due to greater vertical integration. Increased

competition in the dietary supplement market could have a material adverse effect on our results of operations and financial condition.

Nrf2 Activators

In the last few years we have seen the number of products marketed as Nrf2 activators increase, and we are currently aware of at least five such products. We anticipate the number of products that claim to activate Nrf2 will continue to increase as the technology becomes more popular and more broadly accepted. Although we are unaware of any competing direct selling company marketing products as Nrf2 activators, we are aware that at least two competing direct selling companies have sponsored research studies related to Nrf2 activation.

Direct Antioxidants

Vitamin C, Vitamin E, Coenzyme Q-10, and other sources of externally derived antioxidants may be considered competitors of Protandim® but they are mechanistically distinct from Protandim®. These other sources of antioxidants do not increase the body's elimination of oxidants using internal antioxidant enzymes. Our research indicates that Protandim® increases production of hundreds of stress-related anti-inflammatory, and anti-fibrotic gene products including antioxidant enzymes, such as superoxide dismutase and catalase, within the cells of the body. We believe that the body's internally produced antioxidant enzymes provide a better defense against oxidative stress than externally derived sources of antioxidants.

Oral Superoxide Dismutase and Catalase

There are many companies performing research into antioxidants. Several companies sell oral forms of superoxide dismutase and catalase. Although we believe Protandim® is a superior alternative to oral forms of superoxide dismutase and catalase, these products do compete with Protandim® in the marketplace. We anticipate additional companies will likely develop, purchase or in-license products that are competitive with Protandim®.

Personal Skin Care Market

In the personal skin care market, we compete principally with large, well-known cosmetics companies that manufacture and sell broad product lines through retail establishments. Many of these competitors have greater financial resources and brand recognition than we do. We believe, however, we can compete with these larger companies by leveraging our direct selling model and emphasizing our unique, science-based skin care products.

Animal Supplement Market

We compete principally with large, well-known companies in the animal supplement market. Most of the companies we compete with in the animal supplement market have broad distribution channels that include retail establishment. Many of these competitors have greater financial resources and brand recognition than we do. We believe, however, we can compete with these larger companies by leveraging our direct selling model and emphasizing our unique, science-based animal supplement product.

Energy Drink Market

We compete with large, well-known companies in the energy drink market. Most of the companies we compete with in the energy drink market have broad distribution channels that include big box retail establishments. Many of these competitors have greater financial resources and brand recognition than we do. We intend to compete with these larger companies by leveraging our direct selling model and emphasizing our unique, science-based energy drink product. Axio is a no sugar, low-carbohydrate and low calorie energy drink that is also non-GMO, gluten-free and vegan.

Regulatory Environment

The formulation, manufacturing, packaging, labeling, and advertising of our products in the United States are subject to regulation by the Food and Drug Administration, or FDA, and the Federal Trade Commission, or FTC, as well as comparable state laws.

FDA Regulations and DSHEA

We market Protandim® as a "dietary supplement" as defined in the Dietary Supplement Health and Education Act of 1994, or DSHEA. DSHEA is intended to promote access to safe, quality dietary supplements, and information about dietary supplements. DSHEA established a new framework governing the composition and labeling of dietary supplements. DSHEA does not apply to animal supplements like Canine Health®. We are not required to obtain FDA pre-market approval to sell our products in the United States under current laws.

DSHEA permits statements of nutritional support, called “structure-function” statements, to be included in labeling for dietary supplements without FDA marketing approval. Such statements may claim a benefit related to a classical nutrient deficiency disease and disclose the prevalence of such disease in the United States, describe the role of a nutrient or dietary ingredient intended to affect the structure or function in humans, characterize the documented mechanism by which a nutrient or dietary ingredient acts to maintain such structure or function, or describe general well-being from consumption of a nutrient or dietary ingredient. Such statements may not expressly or impliedly claim that a dietary supplement is intended to diagnose, cure, mitigate, treat, or prevent a disease. A company that uses a statement of nutritional support in labeling must possess evidence substantiating that the statement is truthful and not misleading and is supported by competent and reliable scientific evidence.

The FDA may assert that a particular statement of nutritional support that a company is using is an illegal claim; that assertion, normally, is in the form of a warning letter to that company. We have a duty to send to the FDA a notice that lists each new structure-function statement made by us; we are obligated to send that notice within 30 days after the first marketing of a supplement with such a statement.

DSHEA also permits certain scientific literature, for example a reprint of a peer-reviewed scientific publication, to be used in connection with the sale of a dietary supplement to consumers without the literature being subject to regulation as labeling. However, such literature must not be false or misleading, the literature may not promote a particular manufacturer or brand of dietary supplement and it must include a balanced view of the available scientific information on the subject matter, among other requirements.

The FDA's Center for Veterinary Medicine, or CVM, is responsible for enforcing the portion of the Federal Food, Drug, and Cosmetic Act, or the Act, that relates to animal supplements, like our Canine Health® product. CVM's primary responsibility in enforcing the Act is to ensure that animal supplements are safe, effective, and can be manufactured to a consistent standard.

While we exercise care in our formulation, manufacturing, packaging, labeling, and advertising of our products, we cannot guarantee the FDA will never inform us that the FDA believes some violation of law has occurred either by us or by our independent distributors. Any allegations of our non-compliance may result in time-consuming and expensive defense of our activities. The FDA’s normal course of action is to issue a warning letter if it believes that a product is misbranded or adulterated. The responsive action requested by the FDA differs depending upon the nature of the product and claims in question. Typically, the FDA expects a written response within 15 working days of the receipt of a warning letter. The warning letter is public information posted on the FDA’s web site. That information could affect our relationships with our investors, independent distributors, vendors, and consumers. Warning letters also often spark private class action litigation under state consumer protection statutes. The FDA could also order compliance activities, such as an inspection of our facilities and products, and could file a civil lawsuit in which an arrest warrant (seizure) could be issued as to some or all of our products. In extraordinary cases, we could be named a defendant and sued for declaratory and injunctive relief.

FTC Regulations

Advertising and marketing of our products in the United States are also subject to regulation by the FTC under the Federal Trade Commission Act, or FTC Act. Among other things, the FTC Act prohibits unfair methods of competition and unfair false or deceptive acts or practices in or affecting commerce. The FTC Act also makes it illegal to disseminate or cause to be disseminated any false advertisement. The FTC Act provides that disseminating any false advertisement pertaining to foods, which would include dietary supplements, is an unfair or deceptive act or practice. An advertiser is required to have competent and reliable scientific evidence for all express and implied health-related product claims at the time the claims are first made. We are required to have adequate scientific substantiation for all material advertising claims made for our products in the United States. The FTC routinely reviews websites to identify questionable advertising claims and practices. Competitors sometimes inform the FTC when they believe other competitors are violating the FTC Act and consumers also notify the FTC of what they believe may be wrongful advertising. The FTC may initiate a non-public investigation that focuses on our advertising claims which usually involves non-public pre-lawsuit extensive formal discovery. Such an investigation may be very expensive to defend, be lengthy, and result in a publicly disclosed Consent Decree, which is a settlement agreement. If no settlement can be reached, the FTC may start an administrative proceeding or a federal court lawsuit against us or

our principal officers. The FTC often seeks to recover from the defendants, whether in a Consent Decree or a proceeding, any or all of the following: (i) consumer redress in the form of monetary relief or disgorgement of profits; (ii) significant reporting requirements for several years; and (iii) injunctive relief. In addition, most, if not all, states have statutes prohibiting deceptive and unfair acts and practices. The requirements under these state statutes are similar to those of the FTC Act.

The National Advertising Division, or NAD, of the national Better Business Bureau, a non-governmental not-for-profit organization through its Advertising Self-Regulatory Council, or ASRC, is also actively engaged in conducting investigations, called inquiries, which are focused on determining whether the requisite claim substantiation standard exists for specific

structure-function claims. Although the results of each inquiry or proceeding are not binding on the recipient, they are posted on NAD's website. We have been the subject of such a proceeding in 2008 and 2009, which was concluded in 2009.

Regulation of Direct Selling Activities

Direct selling activities are regulated by the FTC, as well as various federal, state and local governmental agencies in the United States and foreign countries. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" schemes, which compensate participants primarily for recruiting additional participants without significant emphasis on product sales. The laws and regulations often:

- require us or our distributors to register with governmental agencies;
- impose caps on the amount of commission we can pay;
- impose reporting requirements; and
- require that we ensure, among other things, that our distributors maintain levels of product sales to qualify to receive commissions and that our distributors are being compensated primarily for sales of products and not primarily for recruiting additional participants.

The laws and regulations governing direct selling are modified from time to time, and, like other direct selling companies, we may be subject from time to time to government investigations related to our direct selling activities. This may require us to make changes to our business model and our compensation plan.

State Regulations

In addition to U.S. federal regulation, each state has enacted its own food and drug laws. We may receive requests to supply information regarding our sales or advertising to state regulatory agencies. We remain subject to the risk that, in one or more of our present or future markets, our products, sales, and advertising could be found non-compliant with state laws and regulations. If we fail to comply with these laws and regulations, it could have a material adverse effect on our business in a particular market or in general. In addition, these laws and regulations could affect our ability to enter new markets.

The FDA Food Safety Modernization Act

The FDA Food Safety Modernization Act, or FSMA, was enacted in 2011 and is now part of the Federal Food, Drug and Cosmetic Act, or FFDCA. The FSMA is a comprehensive set of laws that gives the FDA considerable authority with respect to the prevention of food contamination and the serious problems associated with such contamination. Among other things, it does the following:

- gives the FDA explicit authority to inspect and copy certain records related to any food and to compel a recall if the FDA believes there is a reasonable probability of serious adverse health consequences or death;
- places strict obligations on food and dietary supplement importers to verify that food from foreign suppliers is not adulterated or misbranded; and
- provides whistle blower protection for employees of conventional food or dietary supplement companies who provide information to governmental authorities about violations of the FFDCA.

International Regulations

In addition to the regulations applicable to our activities in the United States, all other markets in which we operate our business regulate our products under a variety of regulatory schemes. We typically market Protandim® in international markets as foods or health foods under applicable regulatory regimes. However, because of varied regulations, some products or ingredients that are recognized as a "food" in certain markets may be treated as a "pharmaceutical" in other markets. In the event a product, or an ingredient in a product, is classified as a drug or pharmaceutical product in any market, we will generally not be able to distribute that product through our distribution channel because of pre-marketing approval requirements and strict regulations applicable to drug and pharmaceutical products. In Japan, for example, ashwagandha was determined to be inappropriate for inclusion in food products. Ashwagandha is one of the ingredients in Protandim®. While we disagree with the assessment of ashwagandha by Japanese regulatory authorities, we are restricted from selling a formulation of Protandim® that contains ashwagandha in Japan. As such, we reformulated Protandim® for the Japan market to exclude ashwagandha. This reformulated Protandim® was introduced in Japan in fiscal 2013.

Similarly, our other markets outside the United States regulate advertising and product claims regarding the efficacy of our products and require adequate substantiation of claims. As such, we are unable to claim that any of our products will diagnose,

cure, mitigate, treat or prevent diseases. For example, in Japan, Protandim® is considered a food product, which significantly limits our ability to make claims regarding the product. If marketing materials make claims that exceed the scope of allowed claims for dietary supplements, regulatory authorities could deem our products to be unapproved drugs and we could experience substantial harm.

Potential FDA and Other Regulation

We could become subject to additional laws or regulations administered by the FDA, FTC, or other federal, state, local or international regulatory authorities, to the repeal of laws or regulations that we consider favorable, such as DSHEA, or to more stringent interpretations of current laws or regulations. Because of negative publicity associated with some adulterated or misbranded supplements, including pharmaceutical drugs marketed as dietary supplements, there has been an increased movement in the United States and other markets to expand the regulation of dietary supplements, which could impose additional restrictions or requirements in the future. In general, the regulatory environment is becoming more complex with increasingly strict regulations.

The Dietary Supplement and Nonprescription Drug Consumer Protection Act requires us to report to the FDA all serious adverse events and to maintain for six years records of all adverse events, whether or not serious. An adverse event is defined as any health-related event associated with the use of a dietary supplement that is adverse. In addition, this law requires the label of each dietary supplement, including our Protandim® product, to include a domestic address or telephone number by which the company selling the product may receive a report of a serious adverse event associated with such product. The label of Protandim® complies with that statutory provision.

Legislation known as the Dietary Supplement Labeling Act was introduced in the United States in 2013. This proposed legislation purports to help consumers distinguish between dietary supplements that are safe and those that have potentially serious side-effects or drug interactions. The Dietary Supplement Labeling Act would require dietary supplement manufacturers to disclose known ingredient risks and display mandatory warnings if a product contains an ingredient that could cause potentially serious adverse events. Although it is not currently known if, or in what form, the Dietary Supplement Labeling Act will be enacted, it could create additional regulatory burdens on our business and increase our cost of goods sold.

Employees

As of June 30, 2015 and June 30, 2014, we had 166 and 201 full time employees, respectively. As of June 30, 2015, 126 of our full time employees were based in the United States, 36 were based in Japan, nine were based in Thailand and three were based in Hong Kong. We do not include our independent distributors in our number of employees because our independent distributors are independent contractors and not employees. We outsource our manufacturing and distribution operations.

Available Information

Our principal offices are located at 9785 S. Monroe Street, Suite 300, Sandy, UT 84070. Our telephone number is (801) 432-9000 and our fax number is (801) 880-0699. Our website address is www.lifevantage.com; however, information found on our website is not incorporated by reference into this report. Our web site address is included in this annual report as an inactive textual reference only.

The reports filed with the Securities and Exchange Commission, or SEC, by us and by our officers, directors, and significant shareholders are available for review on the SEC’s website at www.sec.gov. You may also read and copy materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A — RISK FACTORS

Because of the following risks, as well as other risks affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. The risks described below are those we currently believe could materially affect us. The following risks are not necessarily all of the important factors that could cause our actual results of operations to differ materially from those expressed in the forward-looking statements in this report.

Risk Factors Relating to Our Company

Because our Japanese operations account for a significant part of our business, an inability to strengthen our business and properly manage distractions among our distributors in Japan could harm our business.

Approximately 22% and 29% of our revenue for fiscal year 2015 and fiscal year 2014, respectively, was generated in Japan. We began selling our products into the market in fiscal year 2010 and opened fully supported operations in Japan in fiscal year 2013. Due to our limited experience in Japan, the initiatives we have implemented, or that we may implement in the future,

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may not be successful in galvanizing and motivating our leading independent distributors and we may be unable to retain existing leading independent distributors in Japan. There has been discord among our leading independent distributors in Japan and some of these distributors have left our company to join a competing direct selling company. If we fail to properly manage any discord among our leading independent distributors in Japan, we could lose additional leaders to competing direct selling companies, which could have a significant negative impact on our revenue.

In addition, the regulatory framework in Japan has changed since we first started selling into the market. In fiscal year 2013, for example, we announced the release for the Japanese market of a new formulation of Protandim® in response to the determination of the Ministry of Health, Labour and Welfare, or MHLW, that one of the ingredients in Protandim® is inappropriate for inclusion in a food product in Japan. Our business in Japan could be substantially harmed if this formulation of Protandim® faces additional challenges from regulatory agencies in Japan or if it does not gain the acceptance that the original formulation has obtained in other markets.

Other factors that could impact our results in Japan include:

- inappropriate activities by our independent distributors and any resulting regulatory actions against us or our independent distributors;
- continued or increased levels of regulatory or media scrutiny of our industry and any regulatory actions, or any adoption of more restrictive regulations, in response to such scrutiny;
- significant weakening of the Japanese yen;
- increased regulatory constraints with respect to the claims we can make regarding the efficacy of our products, which could limit our ability to effectively market our products;
- improper practices of other direct selling companies or their independent distributors that increase regulatory or media scrutiny of our industry; and
- weakness in the economy or consumer confidence.

There is a high level of regulatory scrutiny of the direct selling industry in Japan, and several direct selling companies have been penalized for actions of distributors that violated applicable regulations. Such penalties have included suspension from sponsoring activities in Japan. If our distributors fail to comply with applicable regulations in Japan, regulators could take action against us, including a suspension of our sponsoring activities, or we could receive negative media attention, either of which could harm our business significantly.

We may not be successful in expanding our operations.

We may not be successful in expanding our operations. Although we began to sell our products through our direct selling network in fiscal year 2009, we still have limited experience in selling our products through direct selling compared to other companies in our industry. As such, we may have limited insight into trends, disruptions and other factors that may emerge and affect our business. For example, we may need to terminate one or more of our independent distributors for actions contrary to their contractual obligations with us, which may slow our growth by causing a disruption among our independent distributors. Additionally, we may not be successful in keeping our leading independent distributors focused and motivated or in aligning their goals with the goals of our company. We also have limited experience expanding into new geographic markets. Although we are seeking to continue our expansion, if we fail to effectively expand our operations into additional markets, we may be unable to generate consistent operating profit growth in future periods.

If we are able to expand our operations, we may be unable to successfully manage our future growth.

Our business has grown significantly since we initiated our direct selling model in fiscal 2009. This growth placed substantial strain on our management, operational, financial and other resources. If we are able to continue expanding our operations in the United States and in other countries where we believe our products will be successful, such expansion could place increased strain on our management, operational, financial and other resources. In addition, an inability to leverage our current resources in an efficient manner could have a material adverse effect on our business, operating margins and results of operations.

We may not succeed in growing existing markets or opening new markets.

We have international operations in Japan, Hong Kong, Canada, Australia, Philippines, Mexico and Thailand. In fiscal 2015, we generated approximately 30% of our revenues from our international operations, most of which was

generated from Japan. We believe that our ability to achieve future growth is dependent in part on our ability to effectively expand into new international markets. In some of our international markets, we have experienced unexpected difficulties that have resulted in slower than anticipated growth. We may not succeed in growing our existing international markets, entering new international markets on a

timely basis, or achieving profitability in new markets. We must overcome significant regulatory and legal barriers before we can begin marketing in any international market. Also, before marketing commences in a new country or market, it is difficult to assess the extent to which our products and sales techniques will be accepted or successful in any given country. In addition to significant regulatory barriers, we may also encounter problems conducting operations in new markets with different cultures and legal systems from those encountered elsewhere. We may be required to reformulate one or more of our products, including Protandim®, before commencing sales of that product in a given country. Once we have entered a market, we must adhere to the regulatory and legal requirements of that market. We may not be able to obtain and retain necessary permits and approvals in new markets, or we may have insufficient capital to finance our expansion efforts in a timely manner.

Inability of new products to gain distributor or market acceptance could harm our business.

In fiscal 2015, we introduced Axio®, our energy drink mix formulated to promote alertness and support mental performance. We believe our ability to introduce new products that gain acceptance among our distributors and customers is an important part of our ability to grow our revenue in future periods. However, any new products we introduce may not gain distributor and market acceptance to the extent we anticipate or project. Factors that could affect our ability to introduce new products include, among others, government regulations, the inability to attract and retain qualified research and development staff, the termination of third-party research and collaborative arrangements, proprietary protections of competitors that may limit our ability to offer comparable products and the difficulties in anticipating changes in consumer tastes and buying preferences. In addition, new products we introduce may not be successful or generate substantial revenue. The introduction of a new product could also negatively impact other product lines to the extent our distributor leaders focus their efforts on the new product instead of an existing product. If any of our products fail to gain distributor acceptance, we could see an increase in product returns.

Our business could be negatively impacted if we fail to execute our product launch process due to increased pressure on our supply chain, information systems and management.

Although our product launch process may vary by market, we generally introduce new products to our independent distributors and preferred customers through limited-time offers and promotions. The limited-time offers typically generate significant activity and a high level of purchasing, which may result in a higher than normal increase in revenue during the quarter of the limited-time offer and skew year-over-year and sequential comparisons. We may experience difficulty effectively managing growth associated with these limited-time offers. In addition, the size and condensed schedule of these product launches increases pressure on our supply chain. If we are unable to accurately forecast sales levels in each market, obtain sufficient ingredients or produce a sufficient supply to meet demand, we may incur higher expedited shipping costs and we may temporarily run out of stock of certain products, which could negatively impact the enthusiasm of our independent distributors and preferred customers. Conversely, if demand does not meet our expectations for a product launch, we could incur increased inventory write-offs. Any inventory write-off would negatively impact our gross margins. In addition, our order processing systems could have difficulties handling the high volume of orders generated by limited-time offers. Although our previous limited-time offers have not materially affected our product return rate, these events may increase our product return rate in the future.

We rely on our information technology systems to manage numerous aspects of our business, and a disruption in these systems could adversely affect our business.

We depend on our information technology, or IT, systems to manage numerous aspects of our business, including our finance and accounting transactions, to manage our independent distributor compensation plan and to provide analytical information to management. Our IT systems are an essential component of our business and growth strategies, and a serious disruption to our IT systems could significantly limit our ability to manage and operate our business efficiently. These systems are vulnerable to, among other things, damage and interruption from power loss or natural disasters, computer system and network failures, loss of telecommunications services, physical and electronic loss of data, security breaches and computer viruses. Any disruption could cause our business and competitive position to suffer and adversely affect our business and operating results. In addition, if we experience future growth, we will need to scale or change some of our systems to accommodate the increasing number of independent distributors and other customers. For example, we are in the process of implementing a new back office system and mobile application to be used by our independent distributors. The implementation of the new back office system is a

complicated process that will take multiple years to complete. In addition, we may not be successful in implementing a mobile application that our independent distributors find useful. Our ability to compete could be harmed if we are unable to successfully implement the new back office system or if our independent distributors do not adapt well to the new system or mobile application.

Cyber security risks and the failure to maintain the integrity of data belonging to our company, employees, independent distributors and preferred customers could expose us to data loss, litigation and liability, and our reputation could be significantly harmed.

We collect and retain large volumes of data relating to our business and from our employees, independent distributors and preferred customers for business purposes, including for transactional and promotional purposes, and our various information technology systems enter, process, summarize and report such data. The integrity and protection of this data is critical to our business. We are subject to significant security and privacy regulations, as well as requirements imposed by the credit card industry. Maintaining compliance with these evolving regulations and requirements could be difficult and may increase our expenses. In addition, a penetrated or compromised data system or the intentional, inadvertent or negligent release or disclosure of data could result in theft, loss or fraudulent or unlawful use of data relating to our company or our employees, independent distributors or preferred customers, which could harm our reputation, disrupt our operations, or result in remedial and other costs, fines or lawsuits.

Our credit facility includes debt service obligations and restrictive covenants that could impede our operations and flexibility.

We entered into a Financing Agreement in October 2013 that provides for a credit facility consisting of a term loan facility in an aggregate principal amount of up to $47 million and a delayed draw term loan facility in an aggregate principal amount not to exceed $20 million (the "Financing Agreement"). At the end of the fiscal year ended June 30, 2015, the principal amount owing under the credit facility was approximately $22 million. The principal amount borrowed under the credit facility is repayable in consecutive quarterly installments. We expect to generate the cash necessary to pay the principal and interest on the credit facility from our cash flows provided by operating activities. However, our ability to meet our debt service obligations will depend on our future performance, which may be affected by financial, business, economic, demographic and other factors. If we do not have enough money to pay our debt service obligations, we may be required to refinance all or part of our debt, sell assets, borrow more money or raise cash through the sale of equity. In such an event, we may not be able to refinance our debt, sell assets, borrow more money or raise cash through the sale of equity on terms acceptable to us or at all. Also, our ability to carry out any of these activities on favorable terms, if at all, may be further impacted by any financial or credit crisis which may limit access to the credit markets and increase the cost of capital.

The credit facility is secured by a lien on substantially all of our assets, and the assets of our subsidiaries, and contains customary covenants, including covenants that restrict our ability to incur or guarantee additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell our assets and enter into consolidations, mergers or transfers of all or substantially all of our assets. The credit facility includes financial covenants that require us to maintain specified financial ratios and satisfy certain financial condition tests. Our ability to meet these financial ratios and tests can be affected by events beyond our control and we may be unable to meet these ratios and tests. A breach of any of the covenants, ratios, tests or restrictions imposed by the credit facility would result in an event of default and the lender could declare all amounts outstanding under the credit facility to be immediately due and payable. Our assets may not be sufficient to repay the indebtedness if the lenders accelerate our repayment of the indebtedness under the credit facility.

We may not be able to comply with the financial covenants set forth in the Financing Agreement.

The Financing Agreement we entered into in October 2013 contains financial covenants that require us to maintain specified financial ratios and satisfy certain financial condition tests. For example, the Financing Agreement originally required us to have a minimum consolidated EBITDA for the four consecutive fiscal quarters ended March 31, 2015 of at least $20.6 million. We were not in compliance with this financial covenant at March 31, 2015 and we entered into Amendment No. 1 to Financing Agreement on May 1, 2015 (the "Amendment") to remedy our noncompliance and to establish a lower EBITDA covenant for the four consecutive fiscal quarters ending March 31, 2015 and June 30, 2015. The Amendment, however, did not revise the required minimum consolidated EBITDA for periods subsequent to June 30, 2015.

On August 27, 2015 we entered into an Amendment No. 2 to Financing Agreement ("Amendment No. 2"). Amendment No. 2 revised the covenants related to minimum consolidated EBITDA (as defined in the amended Financing Agreement) for the four consecutive fiscal quarters ending September 30, 2015, December 31, 2015,

March 31, 2016 and June 30, 2016 from $22.2 million, $23.1 million, $24.4 million and $25.6 million, respectively, to $14.5 million, $15.0 million, $17.0 million and $17.5 million, respectively. In addition, Amendment No. 2 requires that we make additional monthly accelerated principal payments on our outstanding term loan in the amount of $0.5 million commencing on October 15, 2015 and continuing until the term loan has been paid in full. Amendment No. 2 also requires that we make additional accelerated payments at the end of each calendar quarter in the amount of all unrestricted cash on hand as of the close of business on the last day of the quarter in excess of $12.5 million. If we are unable to further amend the Financing Agreement or significantly increase our revenue and manage our expenses, our consolidated EBITDA may not exceed the minimum consolidated EBITDA required by the Financing Agreement

and, as a result, an event of default would exist under the Financing Agreement for which our lender could accelerate our repayment of the indebtedness.

Our independent distributors could fail to comply with applicable legal requirements or our distributor policies and procedures, which could result in claims against us that could harm our business.

Our independent distributors are independent contractors and, accordingly, we are not in a position to directly provide the same direction, motivation and oversight as we would if distributors were employees. As a result, there can be no assurance that our distributors will participate in our marketing strategies or plans, accept our introduction of new products, or comply with our distributor policies and procedures.

Extensive federal, state, local and international laws regulate our business, products and direct selling activities. Because we have expanded into foreign countries, our policies and procedures for our independent distributors differ slightly in some countries due to the different legal requirements of each country in which we do business. While our distributor policies and procedures are designed to govern distributor conduct, it can be difficult to enforce these policies and procedures because of the large number of distributors and their independent status. Violations by our independent distributors of applicable law or of our policies and procedures in dealing with customers could reflect negatively on our products and operations and harm our business reputation. In addition, it is possible that a court could hold us civilly or criminally accountable based on vicarious liability because of the actions of our independent distributors. In the past, we have had independent distributors investigated by government agencies for conduct violating the law and our policies. This type of investigation can have an adverse effect on us even if we are not involved in the independent distributor's activities.

A substantial portion of our business is conducted in foreign markets, exposing us to the risks of trade or foreign exchange restrictions, increased tariffs, foreign currency fluctuations, disruptions or conflicts with our third party importers and similar risks associated with foreign operations.

A substantial portion of our sales are generated outside the United States. If we are successful in entering additional foreign markets, we anticipate that the percentage of our sales generated outside the United States will increase. There are substantial risks associated with foreign operations. For example, a foreign government may impose trade or foreign exchange restrictions or increased tariffs, which could negatively impact our operations and financial results. We are also exposed to risks associated with foreign currency fluctuations. For instance, in preparing our financial statements, we translate revenue and expenses in our markets outside the United States from their local currencies into U.S. dollars using weighted average exchange rates. If the U.S. dollar strengthens relative to local currencies, our reported revenue, gross profit and net income will likely be reduced. Foreign currency fluctuations can also result in losses and gains resulting from translation of foreign currency denominated balances on our balance sheet. Additionally, purchases from suppliers are generally made in U.S. dollars while sales to distributors are generally made in local currencies. Accordingly, strengthening of the U.S. dollar versus a foreign currency could have a negative impact on us. Specifically, because a significant percentage of our revenues are generated in Japan, strengthening of the U.S. dollar versus the Japanese yen has had and could continue to have an adverse impact on our financial results. Although we may engage in transactions intended to reduce our exposure to foreign currency fluctuations, there can be no assurance that these transactions will be effective. Given the complex global political and economic dynamics that affect exchange rate fluctuations, it is difficult to predict future fluctuations and the effect these fluctuations may have upon future reported results or our overall financial condition.

Additionally, we may be negatively impacted by conflicts with or disruptions caused or faced by third party importers, as well as conflicts between such importers and local governments or regulatory agencies. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries.

Global economic conditions could harm our business.

Global economic conditions continue to be challenging and unpredictable. Consumer confidence and spending have declined in recent years and the global credit crisis has limited access to capital for many companies and consumers. The global economic downturn could adversely impact our business by causing a decline in demand for our products, particularly if the economic conditions are prolonged or worsen. In addition, poor global economic conditions may adversely impact access to capital for us and our suppliers, may decrease our independent distributors’ ability to obtain or maintain credit, and may otherwise adversely impact our operations and overall financial condition.

If we are unable to maintain our level of internal controls, our shareholders could lose confidence in our financial reporting and our stock price could suffer.

We have implemented internal controls to help ensure the accuracy of our financial reporting and have implemented internal controls to comply with Section 404 of the Sarbanes-Oxley Act of 2002. We regularly audit our internal controls and various aspects of our business and we regularly assess the effectiveness of our internal controls. There can be no assurance, however,

that these internal or external assessments and audits will identify all significant or material weaknesses in our internal controls. Any failure to correct a weakness in internal controls could result in the disclosure of a material weakness. If a material weakness results in a material misstatement in our financial results, we may also have to restate our financial statements.

If we are to expand our product offerings, we may need to raise additional capital.

Although we introduced additional products in each of fiscal 2014 and 2015, we primarily depend on Protandim® for our revenue. We may decide to expand our product portfolio and may seek to do so by acquiring products by license or through product or company acquisitions. If cash generated from operations is insufficient to satisfy our requirements in this regard, we may need to raise additional capital, which may be dilutive to our existing shareholders. If we are unable to raise additional required capital in a timely manner, we could be forced to reduce our growth plans.

We could be exposed to certain environmental liabilities due to our past operations and property ownership.

During the 1990s, we owned mining properties in the Yaak River mining district of Montana. We never conducted any mining operations or ore processing on these properties, nor have we performed on-site environmental studies on these properties. The State of Montana Department of Environmental Quality believed that the properties may contain residues from past mining. We may be liable for material environmental liabilities associated with these properties.

In addition, until November 2004, we owned land in Lawrence, Colorado. We are not aware of any environmental liabilities with respect to this land. The party that acquired the land from us assumed any environmental liability related to the land. Nonetheless, a governmental agency or a private party could seek to hold us accountable for such environmental liabilities, if any.

Risk Factors Relating to Our Business and Industry

We primarily depend on a single product for our revenue.

Although we generate revenue through the sale of Canine Health®, our line of LifeVantage TrueScience® skin care products and Axio®, we primarily rely on the sale of Protandim® for our revenue. We do not have a broad portfolio of other products that we could rely on to support our operations if we were to experience any difficulty with the manufacture, marketing, sale or distribution of Protandim®. For example, our revenue was adversely impacted because sales of Protandim® slowed following our voluntary product recall during fiscal 2013. If we have similar problems in the future, our results could be negatively affected. In addition, we may be unable to sustain or increase the price or sales levels for Protandim®, which could harm our business.

If we are unable to retain our existing independent distributors or attract additional independent distributors, our revenue will not increase and may even decline.

Our independent distributors may terminate their services at any time, and we can and have in the past terminated distributors for conduct violative of our policies and procedures. As such, like most direct selling companies, we have experienced and are likely to continue to experience turnover among independent distributors. The departure for any reason of one of our leading independent distributors can be a major disruption to other independent distributors and can have a significant negative impact on our operating results. Independent distributors who join our company to purchase our products for personal consumption or for short-term income goals may only stay with us for a short time. While we take steps to help train, motivate, and retain independent distributors, we cannot accurately predict the number or productivity of our independent distributors.

Our operating results will be harmed if we and our independent distributor leaders do not generate sufficient interest in our business to retain existing independent distributors and attract new independent distributors. The number and productivity of our independent distributors could be harmed by several factors, including:

- any adverse publicity regarding us, our products, our distribution channel, or our competitors;
- lack of interest in existing or new products or their failure to achieve desired results;
- lack of a compelling business opportunity sufficient to generate the interest and commitment of new independent distributors;
- any changes we might make to our independent distributor compensation plan;
- any negative public perception of our company or our products or their ingredients;
- any negative public perception of our independent distributors and direct selling business in general;

- our actions to enforce our policies and procedures;

- any efforts to sell our products through competitive channels;
- any regulatory actions or charges against us or others in our industry; and
- general economic and business conditions.

High quality material for our products may be difficult to obtain or expensive.

Raw materials account for a significant portion of our manufacturing costs and we rely on third-party suppliers to provide raw materials. Suppliers may be unable or unwilling to provide the raw materials our manufacturers need in the quantities requested, at a price we are willing to pay, or that meet our quality standards. We are also subject to potential delays in the delivery of raw materials caused by events beyond our control, including labor disputes, transportation interruptions and changes in government regulations. Our business could be adversely affected if we are unable to obtain a reliable source of any of the raw materials used in the manufacturing of our products that meets our quality standards. Additionally, if demand for our products exceeds our forecasts, we may have difficulties in obtaining additional raw materials in time to meet the excess demand. Any significant delay in or disruption of the supply of raw materials could, among other things, substantially increase the cost of such materials, require reformulation or repackaging of products, require the qualification of new suppliers, or result in our inability to meet customer demands.

Although our independent distributors are independent contractors, improper distributor actions that violate laws or regulations could harm our business.

Our independent distributors are not employees and act independent of us. However, activities by our independent distributors that violate applicable laws or regulations could result in government or third-party actions against us, which could harm our business. Our independent distributors agree to abide by our strict policies and procedures designed to ensure our independent distributors will comply with legal requirements. We have a compliance department that addresses violations of our independent distributors when they become known to us. However, given the size of our independent distributor network, we experience problems with independent distributors violating our policies and procedures from time to time and are not always able to discover or remedy such violations.

One of our most significant areas of risk with respect to independent distributor activities relates to improper product claims and claims regarding the business opportunity of being an independent distributor. Any determination by the Federal Trade Commission, any state agency or other similar governmental agency outside the United States that we or our independent distributors are not in compliance with applicable laws could materially harm our business. Even if governmental actions do not result in rulings or orders against us, they could create negative publicity that could detrimentally affect our efforts to recruit or motivate independent distributors and attract customers or lead to consumer lawsuits against us. As we experience growth in the number of our independent distributors, we have seen an increase in sales aids and promotional material being produced by distributors and distributor groups in some markets. This places an increased burden on us to monitor compliance of such materials and increases the risk that such materials could contain problematic product or marketing claims in violation of our policies and applicable regulations. As we expand internationally, our distributors sometimes attempt to anticipate additional new markets that we may enter in the future and begin marketing and sponsoring activities in markets where we are not qualified to conduct business. We could face fines or other legal action if our distributors violate applicable laws and regulations.

We are dependent upon third parties to manufacture our product.

We currently rely on third parties to manufacture the products we sell. We are dependent on the uninterrupted and efficient operation of third party manufacturers' facilities. We currently have multiple third-party contractors who manufacture Protandim®, however we currently only have one third-party contractor who manufacturers each of Canine Health®, our line of LifeVantage TrueScience® skin care products and Axio®. If any of our current manufacturers are unable or unwilling to fulfill our manufacturing requirements or seek to impose unfavorable terms, we will likely have to seek out other manufacturers, which could disrupt our operations and we may not be successful in finding alternative manufacturing resources. In addition, competitors who perform their own manufacturing may have an advantage over us with respect to pricing, availability of product, and in other areas through their control of the manufacturing process.

Disruptions to transportation channels used to distribute our products may adversely affect our margins and profitability.

We generally rely on the uninterrupted and efficient operation of third-party logistics companies to transport and deliver our products. These third-party logistics companies may experience disruptions to the transportation channels used to distribute our products, including increased airport and shipping port congestion, a lack of transportation capacity, increased fuel expenses, and a shortage of manpower. Disruptions to the transportation channels experienced by our third party logistics companies may result in increased costs, including the additional use of airfreight to meet demand.

We are subject to risks related to product recalls.
We have implemented measures in our manufacturing process that are designed to prevent and detect defects in our products, including contaminants. However, such measures may not prevent or reveal defects or detect contaminants in our products and such defects and contaminants may not become apparent until after our products have been sold into the market. Accordingly, there is a risk that product defects will occur, or that our products will contain foreign contaminants, and that such defects and contaminants will require a product recall. We do not maintain product recall insurance. In December 2012, we commenced a voluntary recall of certain lots of Protandim® to alleviate concerns that some tablets may have included small metal fragments. We discovered these small metal fragments in certain batches of turmeric extract, an ingredient in Protandim® we purchase from third-party suppliers. Product recalls and subsequent remedial actions can be expensive to implement and could have a material adverse effect on our business, results of operations and financial condition. In addition, product recalls could result in negative publicity and public concerns regarding the safety of our products, either of which could harm the reputation of our products and our business and could cause the market value of our common stock to decline.
The events that lead to and followed our voluntary product recall in December 2012 strained our relationships with some of our third-party manufacturers. Additionally, following the voluntary recall we implemented more stringent measures, including several redundant measures, in our manufacturing process to detect contaminates. Third-party manufacturers may be reluctant to implement these redundant measures, may refuse to manufacture our products, and these additional measures may increase our cost of goods sold and further strain our relationships with manufacturers.
Laws and regulations may prohibit or severely restrict direct selling and cause our revenue and profitability to decline, and regulators could adopt new regulations that negatively impact our business.
Various government agencies throughout the world regulate direct selling practices. The laws and regulations applicable to us and our independent distributors in Japan are particularly stringent. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as “pyramid” schemes, which compensate participants primarily for recruiting additional participants without significant emphasis on the sale of product to end consumers. The laws and regulations in some of our markets impose cancellations, product returns, inventory buy-backs and cooling-off rights for our independent distributors and customers. Excessive refunds and/or product returns pursuant to local laws and regulations could have a negative impact on our operating results. Complying with these rules and regulations can be difficult and requires the devotion of significant resources on our part. We may not be able to continue business in existing markets or commence operations in new markets if we are unable to comply with these laws or adjust to changes in these laws.
Unfavorable publicity could materially harm our business.
We are highly dependent upon consumers' perceptions of the safety, quality, and efficacy of our products, as well as competitive products distributed by other companies. In the past, we have experienced negative publicity that has harmed our business. Critics of our industry and other individuals whose interests are not aligned with our interests, have in the past and may in the future utilize the Internet, the press and other means to publish criticism of the industry, our company, our products and our competitors, or make allegations regarding our business and operations, or the business and operations of our competitors. For instance, several prominent companies in our industry have been targeted by short sellers who profit if a company's stock price decreases. One such company has been targeted by a short seller who, after taking a significant short position, publicly made allegations regarding the legality of the company's direct selling model. Short sellers have an incentive to publicly criticize our industry and business model and any such criticism may adversely affect our stock price.
Future scientific research or publicity may not be favorable to our industry or any particular product, including Protandim®. Because of our dependence upon consumer perceptions, adverse publicity associated with illness or other adverse effects resulting or claimed to have resulted from the consumption or use of our products or any similar products distributed by other companies could have a material adverse impact on us. Such adverse publicity could arise even if the claims are unsubstantiated or if the adverse effects associated with such products resulted from failure to consume or use such products as directed. Adverse publicity could also increase our product liability exposure, result in increased regulatory scrutiny and lead to the initiation of private lawsuits.

Our direct selling program could be found to be not in compliance with current or newly adopted laws or regulations in one or more markets, which could prevent us from conducting our business in these markets and harm our financial condition and operating results.

Some of the legal and regulatory requirements concerning the direct selling business model are ambiguous and subject to interpretation. As a result, regulators and courts have discretion in their application of these laws and regulations, and the enforcement or interpretation of these laws and regulations by governmental agencies or courts can change. Recent allegations by short sellers regarding the legality of multi-level marketing companies generally have also created intense public scrutiny of our industry and could cause governmental agencies to change their enforcement and interpretation of applicable laws and

regulations. The failure of our business to comply with current or newly adopted regulations or interpretations could negatively impact our business in a particular market or in general and may adversely affect our share price.
We may become involved in legal proceedings that are expensive, time consuming and, if adversely adjudicated or settled, could adversely affect our financial results.
Litigation claims can be expensive and time consuming to bring or defend against and could result in settlements or damages that could significantly affect our financial results. It is not possible to predict the final resolution of litigation which we may in the future become party to; the impact of certain of these matters on our business, results of operations and financial condition could be material.
We are currently involved in various lawsuits, both as a plaintiff and as defendant. While we believe the suits against us are without merit, they are quite costly to defend and we cannot be assured that we will ultimately prevail. If we do not prevail and are required to pay damages, it could harm our business.
Government authorities may question our tax positions or transfer pricing policies or change their laws in a manner that could increase our effective tax rate or otherwise harm our business.
As a U.S. company doing business in international markets through subsidiaries, we are subject to various tax and intercompany pricing laws, including those relating to the flow of funds between our company and our subsidiaries. From time to time, we are audited by tax regulators in the United States and in our foreign markets. If regulators challenge our tax positions, corporate structure, transfer pricing mechanisms or intercompany transfers, we may be subject to fines and payment of back taxes, our effective tax rate may increase and our operations may be harmed. Tax rates vary from country to country, and, if tax authorities determine that our profits in one jurisdiction may need to be increased, we may not be able to fully utilize all foreign tax credits that are generated, which will increase our effective tax rate. For example, our federal corporate income tax rate in the United States is 35%. If our profitability in a higher tax jurisdiction, such as Japan where our tax rate in fiscal 2015 was approximately 37%, increases disproportionately to the rest of our business, our effective tax rate may increase. The various customs, exchange control and transfer pricing laws are continually changing and are subject to the interpretation of government agencies. We may experience increased efforts by customs authorities in foreign countries to reclassify our products or otherwise increase the level of duties we pay on our products. Despite our efforts to be aware of and comply with such laws, and changes to and interpretations thereof, there is a risk that we may not continue to operate in compliance with such laws. We may need to adjust our operating procedures in response to such changes and, as a result, our business may suffer. In addition, due to the international nature of our business, we are subject from time to time to reviews and audits by taxing authorities of other jurisdictions in which we conduct business throughout the world.
Our business is subject to strict government regulations.
The manufacturing, packaging, labeling, advertising, sale and distribution of our products are subject to federal laws and regulation by one or more federal agencies, including, in the United States, the FDA, the FTC, the Consumer Product Safety Commission, the United States Department of Agriculture, and the Environmental Protection Agency. These activities are also regulated by various state, local, and international laws and agencies of the states and localities in which our products are sold. For instance, the FDA regulates, among other things, the composition, safety, labeling, and marketing or dietary supplements (including vitamins, minerals, herbs and other dietary ingredients for human use). Government regulations may prevent or delay the introduction, or require the reformulation, of our products, which could result in lost revenues, increased costs and delay our expansion into new international markets. For instance, the FDA regulates, among other things, the composition, safety, labeling, and marketing of dietary supplements (including vitamins, minerals, herbs, and other dietary ingredients for human use).
The FDA may determine that a particular dietary supplement or ingredient is adulterated or misbranded or both, and may determine that a particular claim or statement of nutritional value that we make to support the marketing of a dietary supplement is an impermissible drug claim, is not substantiated, or is an unauthorized version of a "health claim." Determining whether a claim is improper frequently involves a degree of subjectivity. Any of these determinations by the FDA could prevent us from marketing that particular dietary supplement product, or making certain claims for that product. The FDA could also require us to remove a particular product from the market. Any future recall or removal would result in additional costs to us, including lost revenues from any product that we are required to remove from the market, which could be material. Any product recalls or removals could also lead to

liability, substantial costs, and reduced growth prospects.

Additional or more stringent regulations of dietary supplements and other products have been considered from time to time. In recent years, there has been increased pressure in the United States and other markets to increase regulation of dietary supplements. New regulations could impose additional restrictions, including requiring reformulation of some products to meet new standards, recalls or discontinuance of some products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of some products, additional or different labeling, additional scientific substantiation,

additional adverse event reporting, or other new requirements. Any of these developments could increase our costs significantly. In the United States, for example, some legislators and industry critics continue to push for increased regulatory authority by the FDA over nutritional supplements. Our business could be harmed if more restrictive legislation is successfully introduced and adopted in the future. In the United States, the FTC's Guides Concerning the Use of Endorsements and Testimonials in Advertising, or Guides, require disclosure of material connections between an endorser and the company they are endorsing and generally do not allow marketing using atypical results. Our independent distributors have historically used testimonials to market and sell our products. Producing marketing materials that conform to the requirements and restrictions of the Guides may diminish the impact of our marketing efforts and negatively impact our sales results. If we or our distributors fail to comply with these Guides, the FTC could bring an enforcement action against us and we could be fined and/or forced to alter our marketing materials. Our operations also could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute nutritional supplements or impose additional burdens or requirements on nutritional supplement companies or require us to reformulate our products.

In addition, the Dietary Supplement and Nonprescription Drug Consumer Protection Act imposes significant regulatory requirements on dietary supplements, packers and distributors including the reporting of "serious adverse events" to the FDA and record keeping requirements. Complying with this legislation could raise our costs and negatively impact our business. We and our suppliers are also required to comply with FDA regulations with respect to current Good Manufacturing Practices in manufacturing, packaging, or holding dietary ingredients and dietary supplements. These regulations require dietary supplements to be prepared, packaged, and held in compliance with procedures that we and our subcontractors must develop and make available for inspection by the FDA. These regulations could raise our costs and negatively impact our business. Additionally, our third-party suppliers or vendors may not be able to comply with these rules without incurring substantial expenses. If our third-party suppliers or vendors are not able to comply with these rules, we may experience increased cost or delays in obtaining certain raw materials and third-party products. In 2011, the FDA published draft guidance which is intended, among other things, to help manufacturers and distributors of dietary supplement products determine when they are required to file with the FDA a New Dietary Ingredient, or NDI, notification with respect to a dietary supplement product. In this draft guidance, the FDA highlighted the necessity for marketers of dietary supplements to submit NDI notifications as an important preventive control to ensure that consumers are not exposed to potential unnecessary public health risks in the form of new ingredients with unknown safety profiles. Although we do not believe that Protandim® contains an NDI, if the FDA were to conclude that we should have filed an NDI notification for Protandim®, then we could be subject to enforcement actions by the FDA. Such enforcement actions could include product seizures and injunctive relief being granted against us, any of which would harm our business.

Regulations governing the production and marketing of our line of skin care products could harm our business.

LifeVantage TrueScience®, our line of anti-aging skin care products, is subject to various domestic and foreign laws and regulations that regulate cosmetic products and set forth regulations for determining whether a product can be marketed as a "cosmetic" or requires further approval as a drug. A determination that our skin care products impact the structure or function of the human body, including due to improper marketing claims by our independent distributors may lead to a determination that the LifeVantage TrueScience® skin care products require pre-market approval as a drug. Such regulations in any given market can limit our ability to import products and can delay product launches as we go through the registration and approval process for those products. Furthermore, if we fail to comply with these regulations, we could face enforcement action against us and we could be fined, forced to alter or stop selling our skin care products and/or be required to adjust our operations. Our operations also could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute our skin care products or impose additional burdens or requirements on the contents of our personal care products or require us to reformulate our products.

We are subject to the risk of investigatory and enforcement action by the FTC.

We are subject to the risk of investigatory and enforcement action by the FTC based on our advertising claims and marketing practices. The FTC routinely reviews product advertising, including websites, to identify significant questionable advertising claims and practices. The FTC has brought many actions against dietary supplement companies based upon allegations that applicable advertising claims or practices were deceptive or not substantiated.

If the FTC initiates an investigation, the FTC can initiate pre-complaint discovery that may be nonpublic in nature. Any investigation may be very expensive to defend and may result in an adverse ruling or in a consent decree.
Non-compliance with anti-corruption laws could harm our business.
Our international operations are subject to anti-corruption laws, including the Foreign Corrupt Practices Act, also known as the FCPA. Any allegations that we are not in compliance with anti-corruption laws may require us to dedicate time and resources to an internal investigation of the allegations or may result in a government investigation. Any determination that our operations or activities are not in compliance with existing anti-corruption laws or regulations could result in the imposition of substantial

fines, and other penalties. Although we have implemented anti-corruption policies and controls to protect against violation of these laws, we cannot be certain that these efforts will be effective.
If we are unable to build and integrate our new management team, our business could be harmed.
Since February 2015, our executive management team has undergone significant change, including the termination or resignation from employment of each of our former President and Chief Executive Officer, Chief Financial Officer, Chief Sales Officer, Chief Science Officer and General Counsel. In addition, in May 2015, Darren Jensen joined our company as our new President and Chief Executive Officer; in July 2015, Justin Rose was appointed as our Chief Sales Officer and in August 2015, Mark Jaggi became our Chief Financial Officer.
Our success depends largely on the development and execution of our business strategy by our senior management team. Each of our President and Chief Executive Officer, Chief Sales Officer and Chief Financial Officer is new to our Company and none of them have worked together in the recent past. We cannot assure you that our new management will succeed in working together as a team, working well with our other existing employees or successfully executing our business strategy in the near-term or at all, which could harm our business and financial prospects. Further, integrating new management into existing operations may be challenging. If we are unable to effectively integrate our new executive management team, our operations and prospects could be harmed.
The loss of or inability to attract key personnel could negatively impact our business.
Our future performance will depend upon our ability to attract, retain, and motivate our executive and senior management team and scientific staff. Our success depends to a significant extent both upon the continued services of our current executive and senior management team and scientific staff, as well as our ability to attract, hire, motivate, and retain additional qualified management and scientific staff in the future. Specifically, competition for executive and senior staff in the direct selling and dietary supplement markets is intense, and our operations could be adversely affected if we cannot attract and retain qualified personnel. Additionally, former members of our executive and senior management team have in the past, and could join in the future or form companies that compete against us in the direct selling industry.
All of our employees are “at will” employees, which means any employee may quit at any time and we may terminate any employee at any time. We do not carry “key person” insurance covering members of senior management or our employees.
We may be held responsible for certain taxes or assessments relating to the activities of our independent distributors, which could harm our financial condition and operating results.
Our distributors are subject to taxation, and in some instances, legislation or governmental agencies impose an obligation on us to collect taxes, such as value added taxes, and to maintain appropriate records. In the event that local laws and regulations or the interpretation of local laws and regulations change to require us to treat our independent distributors as employees, or that our distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors under existing laws and interpretations, we may be held responsible for social security and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results. If our distributors were deemed to be employees rather than independent contractors, we would also face the threat of increased vicarious liability for their actions.
The dietary supplement market is highly competitive.
Our flagship product, Protandim®, competes in the dietary supplements market, which is large, highly competitive and fragmented. Participants include specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, on-line merchants, mail-order companies, and a variety of other smaller participants. Many of our competitors have greater financial and other resources available to them and possess better manufacturing, independent distribution and marketing capabilities than we do. We believe some of these competitors with greater resources are currently working on developing and releasing products that will compete directly with Protandim® and be marketed as Nrf2 activators. One or more of these products could significantly reduce the demand for Protandim® and have a material adverse effect on our revenue. We believe that the market is also highly sensitive to the introduction of new products, including various prescription drugs, which may rapidly capture a significant share of the market. Moreover, because of regulatory restrictions concerning claims about the efficacy of dietary supplements,

we may have difficulty differentiating our products from our competitors' products, and competing products entering the dietary supplements market could harm our revenue. In the United States and Japan, we also compete for sales with heavily advertised national brands manufactured by large pharmaceutical and food companies, as well as other retailers. In addition, as some products become more mainstream, we experience increased competition for those products as more participants enter the market. Our international competitors include large international pharmacy chains, major international supermarket chains, and other large U.S.-based companies with international operations. We may not be able to

compete effectively and our attempt to do so may result in increased pricing pressure, which may result in lower margins and have a material adverse effect on our results of operations and financial condition.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products and brand.

The loss of our intellectual property rights in our products could permit our competitors to manufacture their own version of our products. We have attempted to protect our intellectual property rights in our products through a combination of patents, patent applications, confidentiality agreements, non-compete agreements and other contractual protection mechanisms, and we will continue to do so. While we intend to defend against any threats to our intellectual property, our patents or various contractual protections may not adequately protect our intellectual property. In addition, we could be required to expend significant resources to defend our rights to proprietary information, and may not be successful in such defense.

Moreover, our intellectual property rights are more limited outside of the United States than they are in the United States. As such, we may not be successful in preventing third parties from copying or misappropriating our intellectual property. There can also be no assurance that pending patent applications owned by us will result in patents being issued to us, that patents issued to or licensed by us in the past or in the future will not be challenged or circumvented by competitors or that such patents will be found to be valid or sufficiently broad to protect our products or to provide us with any competitive advantage. Third parties could also obtain patents that may require us to negotiate to obtain licenses to conduct our business, and any required licenses may not be available on reasonable terms or at all. We also rely on confidentiality and non-compete agreements with certain employees, independent distributors, consultants and other parties to protect, in part, trade secrets and other proprietary rights. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information or that third parties will not otherwise gain access to our trade secrets or proprietary knowledge.

Third parties might claim that we infringe on their intellectual property rights.

Although the dietary supplement industry has historically been characterized by products with naturally occurring ingredients, recently it is becoming more common for suppliers and competitors to apply for patents or develop proprietary technologies and processes. Third parties may assert intellectual property infringement claims against us despite our efforts to avoid such infringement. Such claims could prevent us from offering competitive products or result in litigation or threatened litigation.

Our business is susceptible to product liability claims.

The manufacture and sale of any product for human consumption raises the risk of product liability claims. These claims may derive from the product itself or a contaminant found in the product from the manufacturing, packaging, sales process or even due to tampering by unauthorized third parties. Our products consist of vitamins, minerals, herbs, and other ingredients that are classified as foods or dietary supplements and are not subject to pre-market regulatory approval in the United States. Our products could contain contaminated substances, and some of our products contain ingredients that do not have long histories of human consumption. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur. In addition, third-party manufacturers produce all of the products we sell. As a distributor of products manufactured by third parties, we may also be liable for various product liability claims for these products despite not manufacturing them. We may be subject to various product liability claims, including, among others, that our products include inadequate instructions for use or inadequate warnings concerning possible side effects and interactions with other substances. Any product liability claim against us could result in increased costs and could adversely affect our reputation with our customers, which in turn could adversely affect our revenues and operating income. Although we maintain insurance coverage, there is a risk that our insurance will not cover our potential exposure completely or would fail to cover a particular claim, in which case we may not have the financial resources to satisfy such claim. In addition, certain types of damages, such as punitive damages, are not covered by our insurance policy.

Economic, political, and other risks associated with our international operations could adversely affect our revenues and international growth prospects.

As part of our business strategy, we intend to continue to expand our international presence. Our international operations are subject to a number of risks inherent to operating in foreign countries, and any expansion of our international operations will increase the effects of these risks. These risks include, among others:

- political and economic instability of foreign markets;
- foreign governments' restrictive trade policies;
- lack of well-established or reliable legal systems in certain areas in which we operate;

- inconsistent product regulation or sudden policy changes by foreign agencies or governments;
- the imposition of, or increase in, duties, taxes, government royalties, or non-tariff trade barriers;
- difficulty in collecting international accounts receivable and potentially longer payment cycles;
- the possibility that a foreign government may limit our ability to repatriate cash;
- increased costs in maintaining international marketing efforts;
- problems entering international markets with different cultural bases and consumer preferences; and
- fluctuations in foreign currency exchange rates.

Any of these risks could have a material adverse effect on our international operations and our growth strategy.

Risks Related to Ownership of Our Common Stock

The failure to maintain compliance with the continued listing standards of the Nasdaq Capital Market could result in delisting and adversely affect the market price and liquidity of our common stock.

Our common stock is currently listed on the Nasdaq Capital Market. To maintain our listing on the Nasdaq Capital Market we are required to meet its continued listing standards, including, among others, Nasdaq Listing Rule 5550(a)(2), which requires listed securities to maintain a minimum closing bid price of $1.00 per share (the “Bid Price Rule”).

On April 1, 2015, we received a written notice from Nasdaq notifying us that we had not been in compliance with the Bid Price Rule for a period of 30 consecutive days. The notice has no immediate effect on the listing of our common stock on the Nasdaq Capital Market. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), we have a period of 180 days from the date of the written notice, or until September 28, 2015, to regain compliance with the Bid Price Rule. To regain compliance with the Bid Price Rule, the closing bid price of our common stock must meet or exceed $1.00 per share for a minimum of ten consecutive business days during the 180 day compliance period. If we do not regain compliance with the Bid Price Rule during the compliance period ending September 28, 2015, we may be afforded a second compliance period of 180 days if we (i) meet the continued listing requirement for market value of publicly-held shares and all other initial listing standards for the Nasdaq Capital Market, with the exception of the Bid Price Rule, and (ii) notify Nasdaq of our intent to cure the deficiency.

We may be unable to regain compliance with the Bid Price Rule during the compliance period(s), in which case we anticipate Nasdaq will commence proceedings to delist our common stock from the Nasdaq Capital Market. If our common stock is delisted, trading of our common stock most likely will be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities, such as the OTC Bulletin Board. Such trading would likely reduce the market liquidity of our common stock. As a result, an investor would find it more difficult to dispose of, or obtain accurate quotations for the price of, our common stock and the price of our common stock could decline significantly.

Our stock price may experience future volatility.

The trading price of our common stock has historically been subject to wide fluctuations. The price of our common stock may fluctuate in the future in response to quarter-to-quarter variations in operating results, material announcements by us or competitors, governmental regulatory action, conditions in the dietary supplement industry, or other events or factors, many of which are beyond our control, and some of which do not have a strong correlation to our operating performance.

Substantial sales of shares may impact the market price of our common stock.

If our shareholders sell substantial amounts of our common stock, the market price of our common stock may decline. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we consider appropriate.

We would issue up to 3.8 million shares if the holders of our outstanding warrants and options exercise their securities for shares of common stock, which would materially dilute the voting power of our currently outstanding common stock and could cause our stock price to decline.

As of June 30, 2015, we had 97.7 million shares of common stock outstanding. As of June 30, 2015, we also had outstanding warrants that are exercisable for an aggregate of 0.6 million shares of common stock and stock options outstanding for an aggregate of 3.2 million shares of common stock. The issuance of these shares will dilute the voting power of our currently outstanding common stock and could cause our stock price to decline.

- 27-

We have never paid dividends on our capital stock, and we do not currently anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on any of our classes of capital stock to date. Although during fiscal 2015 we paid an aggregate of $9.9 million to repurchase 7.6 million shares of our common stock, we currently intend to retain our future earnings, if any, to fund the development and growth of our business. Additionally, the Financing Agreement we entered into in October 2013 contains a customary covenant that restricts our ability to pay dividends. As a result, capital appreciation, if any, of our common stock is likely to be your sole source of gain for the foreseeable future.

ITEM 1B — UNRESOLVED STAFF COMMENTS

None.

ITEM 2 — PROPERTIES

Corporate Offices

During fiscal year 2014, we moved into our corporate headquarters located at 9785 South Monroe Street, Suite 300, Sandy, Utah 84070. The lease for our corporate headquarters is for a term of ten years commencing on February 10, 2015, with an option for us to terminate the lease in our discretion after seven years. The lease includes approximately 44,353 square feet with options to occupy additional space in the future if needed.

In April 2014, we amended the lease for our previous corporate headquarters located at 9815 South Monroe Street in Sandy, Utah, to reduct the size of this location to approximately 8,742 square feet. In June 2015, we subleased this location. The lease for the 9815 South Monroe Street property expires in June 2017.

Our subsidiary, LifeVantage Japan K.K., leases approximately 10,400 square feet of office space in Tokyo, Japan. The term of the lease is for five years expiring on August 1, 2017.

Warehouse Facilities

Since fiscal year 2010, IntegraCore, LLC has provided fulfillment services to us, including services relating to procurement, warehousing, ordering, processing and shipping. We have also entered into arrangements to receive similar services in some of our international markets.

ITEM 3 — LEGAL PROCEEDINGS

On April 9, 2013, we were sued in the Third Judicial District Court for Salt Lake County, State of Utah. The plaintiff in the lawsuit is Ronald Jones, an independent distributor with our company. The lawsuit alleges that we entered into an agreement with Mr. Jones related to his distributor activities in Hong Kong and that we subsequently breached that agreement. It also alleges that we misappropriated trade secrets that purportedly belong to Mr. Jones. The lawsuit seeks over $20 million in damages. We believe the allegations made by Mr. Jones are completely without merit and we intend to vigorously defend the lawsuit.

On November 20, 2013, we filed a complaint in the United States District Court, District of Utah, Central Division naming Jason Domingo and Ovation Marketing Group, Inc. as defendants. Ovation Marketing Group, Inc. is a former distributor of our company. In the complaint, we allege the defendants breached a contract and misappropriated our trade secrets. On January 21, 2014, the defendants filed an answer and counterclaim in response to our complaint. The defendants' answer and counterclaims allege defamation and tortious interference with economic relations, which the defendants claim resulted in damages of not less than $20 million. We believe the counterclaims alleged by the defendants are completely without merit and we intend to vigorously defend against them.

ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 — MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common stock began trading on the NASDAQ Capital Market ("NASDAQ") under the symbol "LFVN" in September 2012. Our common stock was previously quoted on the OTC Bulletin Board under the symbol “LFVN.”

The table below sets forth, for the fiscal quarters indicated, the reported high and low prices of our common stock, as quoted on NASDAQ or the OTC Bulletin Board, as applicable. These prices were reported by an online service, reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. Our fiscal year-end is June 30.

	Fiscal year			
	2015		2014	
	High	Low	High	Low
First Quarter	$1.55	$1.12	$2.68	$2.13
Second Quarter	$1.43	$1.10	$2.62	$1.37
Third Quarter	$1.34	$0.70	$1.67	$1.10
Fourth Quarter	$0.80	$0.48	$1.51	$1.22

Our common stock is issued in registered form and the following information is taken from the records of our current transfer agent, Computershare Trust Company, Inc., located in Golden, Colorado. As of June 30, 2015, we had 269 shareholders of record and 97.8 million shares of common stock outstanding. This does not include an unknown number of persons who hold shares in street name through brokers and dealers and who are not listed on our shareholder records.

Stock Performance Graph

The following line graph and table compares the cumulative total shareholder return on our common stock with the cumulative total return of (i) the NASDAQ Composite Index and (ii) a market-weighted index of publicly-traded peer companies (the "Peer Group") for the period from June 30, 2010 through June 30, 2015. The data shown assumes an investment on June 30, 2010 of $100 and reinvestment of all dividends into additional shares of the same class of equity, if applicable, to the stock or index. There is no expectation that the rate of return achieved in the prior 5 years will be achievable in the upcoming years.

The Peer Group consists of the following companies, which compete in our industry and product categories: Nature's Sunshine Products, Inc.; Nu Skin Enterprises, Inc.; Mannatech, Incorporated; Herbalife LTD.; Reliv International, Inc.; Avon Products, Inc.; USANA Health Sciences, Inc. and Tupperware Brands Corporation.

Measured Period	LFVN	NASDAQ Composite	Peer Group
June 30, 2010	$100.00	$100.00	$100.00
June 30, 2011	$294.12	$132.73	$142.17
June 30, 2012	$554.90	$142.01	$111.15
June 30, 2013	$454.90	$167.01	$139.34
June 30, 2014	$282.35	$219.06	$144.20
June 30, 2015	$103.92	$250.68	$105.98

Dividends

We have not declared any dividends on any class of our equity securities since incorporation, and we do not currently anticipate declaring any dividends. Additionally, the Financing Agreement we entered into in October 2013 contains customary covenants that, among other things, restrict our ability to pay dividends.

Purchases of Equity Securities

There were no shares of our common stock issued during the three months ended June 30, 2015, due to the exercise of warrants.

We did not purchase any shares of our common stock during the quarter ended June 30, 2015.

During the three months ended June 30, 2015, we withheld 0.1 million shares to satisfy tax withholding obligations in connection with the partial vesting of restricted stock awards.

Recent Sale of Unregistered Securities

During the three months ended June 30, 2015, we did not issue any securities that were not registered under the Securities Act of 1933, as amended.

Equity Compensation Plan Information

This information is incorporated by references to Item 12 of this report.

ITEM 6 — SELECTED FINANCIAL DATA

The following table summarizes certain historical financial information at the dates and for the periods indicated prepared in accordance with GAAP. The consolidated statement of operations data for each of the years ended June 30, 2015, 2014 and 2013, and the consolidated balance sheet data as of June 30, 2015, and 2014, have been derived from our consolidated financial statements audited by EKS&H LLLP, an independent registered public accounting firm, included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for each of the years ended June 30, 2012 and 2011 and the consolidated balance sheet data as of June 30, 2013, 2012 and 2011 have been derived from our financial statements not included herein. The selected consolidated financial data should be read in conjunction with “Management's Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto, which are included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of operating results to be expected in the future.

	Years Ended June 30,				
	2015	2014	2013	2012	2011
(In thousands, except per share data)					
Statement of Operations Data:					
Revenue, net	$190,336	$213,968	$208,178	$126,183	$38,919
Cost of sales	28,010	33,194	31,845	18,052	5,917
Product recall costs	—	—	4,798	—	—
Gross profit	162,326	180,774	171,535	108,131	33,002
Operating expenses:					
Commission and incentives	91,074	104,525	101,737	57,955	17,132
Selling, general and administrative	57,353	56,801	57,730	28,719	12,168
Total operating expenses	148,427	161,326	159,467	86,674	29,300
Operating income (loss)	13,899	19,448	12,068	21,457	3,702
Other expense, net:					
Interest expense	(3,087)	(3,177)	(3)	(8)	(5,993)
Other income (expense), net	(159)	384	(912)	(36)	45
Change in fair value of derivative liabilities	—	—	—	(6,741)	(48,454)
Total other expense, net	(3,246)	(2,793)	(915)	(6,785)	(54,402)
Income (loss) before income taxes	10,653	16,655	11,153	14,672	(50,700)
Income tax expense	(3,666)	(5,272)	(3,545)	(2,203)	(92)
Net income (loss)	$6,987	$11,383	$7,608	$12,469	$(50,792)
Net income (loss) per share:					
Basic	$0.07	$0.11	$0.07	$0.12	$(0.69)
Diluted	$0.07	$0.10	$0.06	$0.11	$(0.69)
Weighed average shares outstanding:					
Basic	97,293	105,791	112,276	102,696	73,173
Diluted	99,052	111,599	122,888	118,331	73,173

	As of June 30,				
	2015	2014	2013	2012	2011
(In thousands)					
Balance Sheet Data:					
Cash and cash equivalents	$13,905	$20,387	$26,299	$24,648	$6,721
Working capital	4,615	17,271	25,375	22,800	(3,105)
Total assets	40,879	53,999	55,484	44,528	12,499
Current liabilities	25,860	22,702	20,566	16,028	13,380
Derivative liabilities	—	—	—	—	19,905
Long-term debt, net of unamortized discount	9,631	25,073	—	—	—
Total liabilities	37,554	50,009	21,539	16,245	33,307
Total stockholders equity (deficit)	3,325	3,990	33,945	28,283	(20,808)

ITEM 7 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in connection with our financial statements and related notes beginning on page F-1 following Part III of this report.

Overview

We are a company dedicated to helping people achieve their health, wellness and financial independence goals. We provide quality, scientifically validated products and a financially rewarding network marketing business opportunity to customers and independent distributors who seek a healthy lifestyle and financial freedom. We engage in the identification, research, development and distribution of advanced nutraceutical dietary supplements and skin care products. We sell our products to independent distributors and preferred customers in two geographic regions: Americas and Asia/Pacific.

Our revenue depends on the number and productivity of our independent distributors and the number of our preferred customers. When we are successful in attracting and maintaining independent distributors and preferred customers, it is largely because of:

- Our scientifically-validated products, including Protandim®, LifeVantage TrueScience®, Canine Health® and Axio®;
- Our compensation plan and other sales initiatives; and
- Our goal to deliver superior customer service.

As a result, it is vital to our success that we leverage our product development resources to develop and introduce innovative products and provide opportunities for our independent distributors to sell these products in a variety of markets.

We have begun selling our products in and attracting new independent distributors and preferred customers in several new markets since the beginning of our direct selling activities in 2009, including Japan, Australia, Canada, Mexico, Hong Kong, Thailand and, on a limited basis, the Philippines. Entering a new market requires a considerable amount of time, resources and continued support. If we are unable to properly support an existing or new market, our revenue growth will be negatively impacted.

Our Products

Our products are Protandim®, the LifeVantage TrueScience® skin care regimen, Axio®, and Canine Health®. Protandim® contains a proprietary blend of ingredients and has been shown to combat oxidative stress by increasing the body’s natural antioxidant protection at the genetic level, inducing the production of naturally-occurring protective antioxidant enzymes including superoxide dismutase, catalase, and glutathione synthase. Our LifeVantage TrueScience® skin care regimen includes TrueScience® Ultra Gentle Facial Cleanser, TrueScience® Perfecting Lotion, TrueScience® Eye Corrector Serum, and our enhanced TrueScience® Anti-Aging Cream. Axio® is our energy drink mix formulated to promote alertness and support mental performance. Canine Health® is a supplement specially formulated to combat oxidative stress in dogs through Nrf2 activation. The following table shows revenues by major product line for the years ended June 30, 2015, 2014 and 2013.

	For the years ended June 30,								
	2015			2014			2013		
Protandim®	$120,967	63.6	%	$142,935	66.8	%	$138,996	66.8	%
LifeVantage TrueScience® skin care regimen	38,287	20.1	%	46,474	21.7	%	42,229	20.3	%
Other	31,082	16.3	%	24,559	11.5	%	26,953	12.9	%
Total	$190,336	100.0	%	$213,968	100.0	%	$208,178	100.0	%

The Company's revenues are largely attributed to two products lines, Protandim® and the LifeVantage TrueScience® skin care regimen, which each accounted for more than 10% of total revenues for each of the years ended June 30, 2015, 2014 and 2013. On a combined basis, these products represent approximately 83.7%, 88.5% and 87.1% of our worldwide gross revenues for the years ended June 30, 2015, 2014 and 2013, respectively.

- 32-

We currently have additional products in development. Any delays or difficulties in introducing compelling products or attractive initiatives or tools into our markets may have a negative impact on our revenue and our ability to attract new independent distributors and preferred customers.

Customers

Because we utilize a direct selling model for the distribution of our products, the success and growth of our business is primarily based on the effectiveness of our independent distributors in selling our products and on our ability to attract new and retain existing independent distributors. Changes in our product sales are typically the result of variations in product sales volume relating to fluctuations in the number of active independent distributors and preferred customers purchasing our products. The number of active independent distributors and preferred customers is, therefore, used by management as a key non-financial measure.

The following tables summarize the changes in our active customer base by geographic region. These numbers have been rounded to the nearest thousand as of the dates indicated. For purposes of this report, we only count as active customers those independent distributors and preferred customers who have purchased from us at any time during the most recent three-month period, either for personal use or for resale. We believe that the decrease in overall preferred customers is a result of a majority of our efforts being focused on attracting independent distributors who both consume our products and seek out others who will also purchase and consume our products.

	Active Independent Distributors By Region									
	As of June 30, 2015			As of June 30, 2014			Change from Prior Year		Percent Change	
Americas	44,000	67.7	%	44,000	64.7	%	—		—	%
Asia/Pacific	21,000	32.3	%	24,000	35.3	%	(3,000	)	(12.5	)%
	65,000	100.0	%	68,000	100.0	%	(3,000	)	(4.4	)%

	Active Preferred Customers By Region									
	As of June 30, 2015			As of June 30, 2014			Change from Prior Year		Percent Change	
Americas	94,000	81.7	%	107,000	83.6	%	(13,000	)	(12.1	)%
Asia/Pacific	21,000	18.3	%	21,000	16.4	%	—		—	%
	115,000	100.0	%	128,000	100.0	%	(13,000	)	(10.2	)%

Income Statement Presentation

We report revenue in two geographic regions and we translate revenue from each market's local currency into U.S. dollars using weighted-average exchange rates. Revenue consists primarily of product sales, fee revenues, and shipping and handling fees net of applicable sales discounts. Revenue is recognized upon the passage of title and risk of loss to customers. Also reflected in revenue is a provision for product returns and allowances, which is estimated based on our historical experience. The following table sets forth net revenue information by region for the periods indicated. The following table should be reviewed in connection with the tables presented under "Results of Operations" (in thousands):

	For the years ended June 30,								
	2015			2014			2013		
Americas	$138,118	72.6	%	$141,227	66.0	%	$133,046	63.9	%
Asia/Pacific	52,218	27.4	%	72,741	34.0	%	75,132	36.1	%
Total	$190,336	100	%	$213,968	100	%	$208,178	100	%

Cost of sales primarily consists of costs of products purchased from and manufactured by third-party vendors, costs of adjustments to inventory carrying value, and costs of sales materials which we sell to our sales force, as well as freight, duties and taxes that are associated with the import and export of our products. As our international sales increase as a percentage of total revenue, cost of sales are increasingly affected by additional duties, freight, and other factors, such as changes in currency exchange rates.

Commissions and incentives expenses are our most significant expenses and are classified as operating expenses. Commissions and incentives expenses include sales commissions paid to our independent distributors, special incentives, costs

for incentive trips and other rewards. Commissions and incentives expenses do not include any amounts we pay to our independent distributors for personal purchases. Commissions paid to independent distributors on personal purchases are considered a sales discount and are reported as a reduction to our net revenue. Our global sales compensation plan, which we employ in all our markets, is an important factor in our ability to attract and retain our independent distributors. Under our global sales compensation plan, independent distributors can earn commissions for product sales to their preferred customers as well as the product sales made through the sales network they have developed and trained. We do not pay commissions on sales materials, which are sold to our independent distributors. Commissions and incentives expenses, as a percentage of revenue, may increase in connection with limited-time offers due to growth in the number of independent distributors qualifying for increased sales compensation and promotional incentives. From time to time, we make modifications and enhancements to our global sales compensation plan in an effort to help motivate our sales force and develop leadership characteristics, which can have an impact on commissions and incentives expenses.

Selling, general and administrative expenses include wages and benefits, marketing and event costs, professional fees, rents and utilities, depreciation and amortization, research and development, travel costs, and other operating expenses. Wages and benefits represent the largest component of selling, general and administrative expenses. Marketing and event costs include costs of distributor conventions and events held in various markets worldwide, which we expense in the period in which they are incurred. Marketing and event costs also include expenses associated with our sponsorship of the Major League Soccer team, Real Salt Lake.

Sales to customers outside the United States are transacted in the respective local currencies and are translated to U.S. dollars at weighted-average currency exchange rates for each monthly accounting period to which they relate. Consequently, our net sales and earnings are affected by changes in currency exchange rates. In general, sales and gross profit are affected positively by a weakening U.S. dollar and negatively by a strengthening U.S. dollar. Currency fluctuations, however, have the opposite effect on our commissions paid to independent distributors and selling, and general and administrative expenses. In our revenue discussions that follow, we approximate the impact of currency fluctuations on revenue by translating current year revenue at the average exchange rates in effect during the comparable prior year periods.

Results of Operations

For the fiscal years ended June 30, 2015, 2014, and 2013, we generated net revenues of $190.3 million, $214.0 million and $208.2 million, respectively, recognized operating profit of $13.9 million, $19.4 million and $12.1 million, respectively, and recognized net income of $7.0 million, $11.4 million and $7.6 million, respectively.

The following table presents certain consolidated earnings data as a percentage of net revenue:

	For the years ended,					
	June 30, 2015		June 30, 2014		June 30, 2013	
Revenue, net	100.0	%	100.0	%	100.0	%
Cost of sales	14.7		15.5		15.3	
Product recall costs	—		—		2.3	
Gross profit	85.3		84.5		82.4	
Operating expenses:						
Commissions and incentives	47.8		48.9		48.9	
Selling, general and administrative	30.1		26.5		27.7	
Total operating expenses	77.9		75.4		76.6	
Operating income	7.4		9.1		5.8	
Other income (expense):						
Interest expense	(1.6	)	(1.5	)	—	
Other income (expense), net	(0.1	)	0.2		(0.4	)
Total other income (expense)	(1.7	)	(1.3	)	(0.4	)
Income before income taxes	5.7		7.8		5.4	
Income tax expense	(1.9	)	(2.5	)	(1.7	)
Net income	3.8	%	5.3	%	3.7	%

Comparison of Fiscal Years Ended June 30, 2015 and 2014

Revenue, net. We generated net revenue of $190.3 million and $214.0 million during the years ended June 30, 2015 and 2014, respectively. This included decreases in both the Americas region and the Asia/Pacific region. Foreign currency

fluctuations negatively impacted our net revenue $6.0 million or 2.8%, which is related primarily to our Asia/Pacific region. The overall decrease in sales of $23.6 million in fiscal 2015 was primarily due to a decrease of $20.5 million in sales in the Asia/Pacific region caused by both the negative foreign currency impact on sales and distractions in the distributor force in Japan.

Americas. The following table sets forth revenue for the years ended June 30, 2015 and 2014 for the Americas region (in thousands):

	For the years ended June 30,			
	2015	2014	% change	
United States	$132,831	$136,758	(2.9	)%
Other	5,287	4,469	18.3	%
Americas Total	$138,118	$141,227	(2.2	)%

Revenue in the Americas region for the year ended June 30, 2015 decreased $3.1 million or 2.2%. The decrease in revenue during the year ended June 30, 2015 is due to a decrease in the number of active preferred customers of 12.1% and lower volume of product sales in the region as compared to the prior year same period, offset partially by additional product purchases associated with the launch of Axio®, our new energy drink product.

Asia/Pacific. The following table sets forth revenue for the years ended June 30, 2015 and 2014 for the Asia/Pacific region and its principal markets (in thousands):

	For the years ended June 30,			
	2015	2014	% change	
Japan	$41,428	$61,872	(33.0	)%
Hong Kong	5,963	7,347	(18.8	)%
Other	4,827	3,522	37.1	%
Asia/Pacific Total	$52,218	$72,741	(28.2	)%

Revenue in the region for the year ended June 30, 2015 was negatively impacted approximately $5.5 million, or 7.6%, by foreign currency exchange rate fluctuations.

Local currency revenue in Japan decreased 24.4% in fiscal 2015 compared to fiscal 2014. During the year ended June 30, 2015 the Japanese yen weakened against the U.S. dollar, negatively impacting our revenue in this market by $5.3 million or 8.6%. In addition to the negative impact of foreign currency fluctuations, product sales volume decreased in Japan and Hong Kong. The negative impact of foreign currency rate fluctuations and the decrease in product sales was partially offset by an increase in volume of product sales in Australia, Philippines and Thailand.

All of our sales and marketing efforts continue to be directed toward building our network marketing sales. We expect increased revenue in the Americas region as we continue to focus on our growth initiatives, specifically product development and sales and marketing. We expect revenue in Australia, Hong Kong, and the Philippines to remain relatively consistent as we continue to provide similar levels of support as previous periods. Overall, we expect revenues to increase moderately as we continue to focus on strengthening our sales and marketing efforts, product innovation, and expanding our geographic reach.

We continue to face significant challenges in our Japan market, with our biggest challenge being the contraction in revenue. We believe that continued attempts by former distributors, including two previous lead distributors, who terminated their distributorships in June 2014 after being suspended for ongoing violations of our policies and procedures, to recruit our distributors to another network marketing company has continued to be a distraction and negatively impact our business in that market.

While there continues to be uncertainty regarding the full impact these distractions will have on future revenue, we have taken actions to mitigate the impact and we continue to monitor the progress of these actions. We have commenced and continue to take legal action against the company to which some of our former distributor leaders have moved, but anticipate that will take time to complete. In addition, we are working to unify our Japan distributor base, starting with our distributor leaders in the market. We have restructured our Japan field advisory board, with the intended effect to streamline the partnership process and focus leaders on positive in-country distributor activities. In addition to promoting greater leadership and unity in the market, we are focused on creating country-specific marketing tools and materials that we believe will be of significant benefit to our distributors as they build their

businesses.

Gross Margin. Cost of sales were $28.0 million for the year ended June 30, 2015, and $33.2 million for the year ended June 30, 2014, resulting in a gross margin of $162.3 million, or 85%, and $180.8 million, or 84%, respectively. The increase in gross margin as a percent of revenues was primarily due to cost recoveries from insurance of approximately $2.0 million that were received during the first quarter of fiscal year 2015. We expect the gross margin percentage to be in the 84-85% range for the foreseeable future based on our expected inventory and manufacturing costs. Economic conditions and changes in the supply of raw materials, new products with differing raw material cost basis, and additional manufacturing process costs could negatively impact our gross margins in the future.

Operating Expenses. Total operating expenses for the year ended June 30, 2015 were $148.4 million as compared to operating expenses of $161.3 million for the year ended June 30, 2014. Operating expenses consist of commissions and incentives expenses and selling, general and administrative expenses. Operating expenses as a percentage of revenue increased to 77.9% for the year ended June 30, 2015 from 75.4% for the year ended June 30, 2014. The decrease of $12.9 million in operating expenses is due primarily to decreased commissions and incentives expenses caused by our decreased sales. The increase in operating expenses as a percentage of revenues is due to increased wage and salary expenses associated with changes in the Company's executive team as well as increased costs related to marketing events held during the fiscal year ended June 30, 2015.

Primary factors that may cause our operating expenses to fluctuate in the future include changes in the number of employees, foreign exchange rates, and the impact of our variable compensation programs, which are driven by overall operating results. A fluctuation in our stock price may also impact our share-based compensation expense recorded for liability classified awards.

Commissions and Incentives. Commissions and incentives expenses for the fiscal year ended June 30, 2015 were $91.1 million or 47.8% of revenue compared to $104.5 million or 48.9% of revenue for the fiscal year ended June 30, 2014. The decrease in expense of $13.5 million in fiscal year 2015 was due primarily to the overall decrease in sales. We expect commissions and incentives expenses to remain relatively stable as a percentage of net sales, with some small fluctuations caused by changes to compensation and incentive programs.

Selling, General and Administrative. Selling, general and administrative expenses for the year ended June 30, 2015 were $57.4 million compared to $56.8 million for the fiscal year ended June 30, 2014. The increase of $0.6 million was primarily due to increased wage expenses associated with changes in the executive team and increased research and development costs due to increased spending on product innovation.

We expect selling, general and administrative expenses, as a percent of revenue, to increase as a result of our strategic initiatives around strengthening our sales and marketing efforts, product innovation, and expanding our geographic reach.

Other Income (Expense). We recognized other expense for the year ended June 30, 2015 of $3.2 million as compared to $2.8 million for the year ended June 30, 2014. Other expense for the year ended June 30, 2015 consisted primarily of interest expense of $3.1 million and the impact of changes in foreign currency exchange rates. As of June 30, 2015, we had no derivative liability instruments outstanding and do not expect to recognize expense or income relating to derivative liability in future periods.

The following table sets forth interest expense for the years ended June 30, 2015 and 2014 (in thousands):

	For the years ended June 30,	
	2015	2014
Contractual interest expense:		
2013 Term Loan	$2,633	$2,732
Amortization of deferred financing fees:		
2013 Term Loan	255	158
Amortization of debt discount:		
2013 Term Loan	198	123
Other	1	164
Total interest expense	$3,087	$3,177

Income Tax Expense. Our income tax expense for the year ended June 30, 2015 was $3.7 million as compared to income tax expense of $5.3 million for the year ended June 30, 2014. Our provision for income taxes for the year

ended June 30, 2015 consisted primarily of federal, state, and foreign tax on anticipated fiscal 2015 income which was partially offset by tax benefits

related to research and development credits and a deduction for domestic production activities. We expect our income tax expense and effective tax rate to increase as our taxable income increases and our effective rate approaches normal statutory rates in future periods.

Net Income. As a result of the foregoing factors, net income for the year ended June 30, 2015 decreased to $7.0 million compared to $11.4 million for the year ended June 30, 2014.

Comparison of Fiscal Years Ended June 30, 2014 and 2013

Revenue. We generated net revenue of $214.0 million and $208.2 million during the years ended June 30, 2014 and 2013, respectively. This included an increase in net revenue in the Americas region and a slight decline in net revenue in the Asia/Pacific region. Foreign currency fluctuations negatively impacted our net revenue $10.4 million or 5.0%, which is related primarily to our Asia/Pacific region. The increase in sales of $5.8 million in fiscal 2014 was primarily due to an increase of 2.3% in active independent distributors in the Americas as well as the successful introduction of a full line of anti-aging skin care products under our LifeVantage TrueScience® brand in fiscal 2014.

Americas. The following table sets forth revenue for the years ended June 30, 2014 and 2013 for the Americas region (in thousands):

	For the years ended June 30,			
	2014	2013	% change	
United States	$136,758	$131,508	4.0	%
Other	4,469	1,538	190.6	%
Americas Total	$141,227	$133,046	6.1	%

Revenue in the Americas region for the year ended June 30, 2014 increased $8.2 million or 6.1% . The increase in revenue during the year ended June 30, 2014 is due to an increased number of active independent distributors and higher volume of product sales in the region as compared to the prior year same period, including additional product sales associated with the launch of our full line of anti-aging skin care products under our LifeVantage TrueScience® brand.

Asia/Pacific. The following table sets forth revenue for the years ended June 30, 2014 and 2013 for the Asia/Pacific region and its principal markets (in thousands):

	For the years ended June 30,			
	2014	2013	% change	
Japan	$61,872	$69,491	(11.0	)%
Hong Kong	7,347	2,478	100.0	%
Other	3,522	3,163	11.3	%
Asia/Pacific Total	$72,741	$75,132	(3.2	)%

Revenue in the region for the year ended June 30, 2014 was negatively impacted approximately $10.1 million, or 13.5%, by foreign currency exchange rate fluctuations.

Local currency revenue in Japan increased 3.2% in fiscal 2014 compared to fiscal 2013. During the year ended June 30, 2014 the Japanese yen weakened against the U.S. dollar, negatively impacted our revenue in this market by $9.8 million or 14.1%. The negative impact of foreign currency rate fluctuations was partially offset by an increase in volume of product sales in Japan and Hong Kong. Effective April 1, 2014 we implemented a price increase in our Japan market of 20% to offset the yen devaluation.

Gross Margin. Cost of sales were $33.2 million for the year ended June 30, 2014, and $36.6 million for the year ended June 30, 2013, resulting in a gross margin of $180.8 million, or 84%, and $171.5 million, or 82%, respectively. The increase in gross margin was primarily caused by our voluntary recall which occurred in the prior fiscal year, December 2012.

Operating Expenses. Total operating expenses for the year ended June 30, 2014 were $161.3 million as compared to operating expenses of $159.5 million for the year ended June 30, 2013. Operating expenses consist of commission and incentives expenses and selling, general and administrative expenses. The increase of $1.9 million in operating expenses was due to an increase in commissions and incentives expenses on our increased sales and partially offset by a reduction in selling, general and administrative expenses.

- 37-

Commissions and Incentives. Commissions and incentives expenses for the year ended June 30, 2014 were $104.5 million or 48.9% compared to $101.7 million or 48.9% for the fiscal year ended June 30, 2013. The increase in expense of $2.8 million in fiscal year 2014 was due primarily to commissions incurred on increased sales.
Selling, General and Administrative. Our selling, general and administrative expenses for the year ended June 30, 2014 were $56.8 million compared to $57.7 million for the fiscal year ended June 30, 2013. The decrease of $0.9 million was primarily due to a decrease in research and development costs that resulted from a reduction in salaries and benefits related to the retirement of our former Chief Science Officer, Dr. McCord, and partially offset by increased spending on product innovation and an increase in salaries and wages as a result of hiring additional key employees.
Other Income (Expense). We recognized net other expense for the year ended June 30, 2014 of $2.8 million as compared to $0.9 million for the year ended June 30, 2013. Other expense for the year ended June 30, 2014 consisted primarily of interest expense of $3.2 million offset by income related to a government-sponsored business development incentive and impacts of changes in foreign currency exchange rates.
Income Tax Expense. Our income tax expense for the year ended June 30, 2014 was $5.3 million as compared to income tax expense of $3.5 million for the year ended June 30, 2013. The decrease in tax expense is primarily due to the decrease in income before taxes for the fiscal year ended June 30, 2014 as compared to the fiscal year ended June 30, 2013. The effective tax rates remained consistent at 31.50% and 31.70% for the fiscal years ended June 30, 2014 and 2013, respectively.
Net Income. As a result of the foregoing factors, net income decreased to $11.4 million for the year ended June 30, 2014 compared to $7.6 million in for the year ended June 30, 2013.
Liquidity and Capital Resources
Liquidity
Our primary liquidity and capital resource requirements are to service our debt and finance the cost of our planned operating expenses and working capital (principally inventory purchases), as well as capital expenditures and stock repurchases. We have generally relied on cash flow from operations to fund operating activities and we have, at times, incurred long-term debt in order to fund stock repurchases and strategic transactions.
At June 30, 2015, our cash and cash equivalents were $13.9 million. This represented a decrease of $6.5 million from the $20.4 million in cash and cash equivalents as of June 30, 2014. During the fiscal year ended June 30, 2015, our net cash provided by operating activities was $13.2 million as compared to net cash provided by operating activities of $12.1 million during the fiscal year ended June 30, 2014. The increase in cash provided by operating activities during the fiscal year ended June 30, 2015 is primarily due to increased collection of receivables and a decrease in prepayments made for expenses during the fiscal year ended June 30, 2015, partially offset by the decrease in net income for fiscal year 2015 compared to fiscal year 2014.
During the fiscal year ended June 30, 2015, our net cash used in investing activities was $1.2 million, primarily due to capital expenditures. During the fiscal year ended June 30, 2014, our net cash used in investing activities was $2.2 million, also primarily due to capital expenditures.
Cash used in financing activities during the fiscal year ended June 30, 2015 was $18.5 million, compared to $15.8 million during the fiscal year ended June 30, 2014. Cash used in financing activities during the fiscal year ended June 30, 2015 included principal payments on the Term Loan entered into in October 2013 totaling $9.2 million and repurchases of shares of our common stock totaling $9.9 million. Cash used in financing activities during the fiscal year ended June 30, 2014 was primarily due to the repurchases of shares of our common stock of $46.2 million that was partially offset by proceeds from the Term Loan of $45.8 million. Principal payments of $16.2 million were made towards the Term Loan during the fiscal year ended June 30, 2014.
At June 30, 2015 and 2014, the total amount of our foreign subsidiary cash was $5.2 million and $2.8 million, respectively. For earnings considered to be indefinitely reinvested, we have not accrued taxes. If we were to remit the cash and cash equivalents from our foreign subsidiaries to our U.S. consolidated group for the purpose of repatriation of undistributed earnings, we would need to accrue and pay taxes. As of June 30, 2015, our U.S. consolidated group had approximately $0.1 million of permanently reinvested unremitted earnings from our subsidiaries, and if these earnings were remitted, the impact of any tax consequences on our overall liquidity position would not be material.

We do not have any plans to repatriate these unremitted earnings to our parent; therefore, we do not have any liquidity concerns relating to these unremitted earnings and related cash and cash equivalents.
At June 30, 2015, we had working capital (current assets minus current liabilities) of $4.6 million compared to working capital of $17.3 million at June 30, 2014. The decrease in working capital was due primarily to decreases in cash, income tax

receivable, and prepaid expenses as well as an increase in short term debt. We believe that our cash and cash equivalents balances and our ongoing cash flow from operations will be sufficient to satisfy our cash requirements for at least the next 12 months. The majority of our historical expenses have been variable in nature and, as such, a potential reduction in the level of revenue would reduce our cash flow needs. In the event that our current cash balances and future cash flow from operations are not sufficient to meet our obligations or strategic needs, we would consider raising additional funds, which may not be available on terms that are acceptable to us, or at all. Our credit facility, however, contains covenants that restrict our ability to raise additional funds in the debt or equity markets and repurchase our equity securities without prior approval from the lender. Additionally, we would consider realigning our strategic plans including a reduction in capital spending.

Capital Resources

On October 18, 2013, we entered into a Financing Agreement providing for a term loan facility in an aggregate principal amount of $47 million (the “Term Loan”) and a delayed draw term loan facility in an aggregate principal amount not to exceed $20 million (the “Delayed Draw Term Loan”). The Delayed Draw Term Loan was available for borrowing in specified minimum amounts from time to time beginning after the effective date (as defined in the Financing Agreement) until October 18, 2014 or until the Delayed Draw Term Loan is reduced to zero, if earlier. We did not borrow any amounts under the Delayed Draw Term Loan.

On May 1, 2015, we entered into an Amendment No. 1 to Financing Agreement ("Amendment No. 1"). Amendment No. 1 revised the covenants relating to minimum consolidated EBITDA (as defined in the Financing Agreement) for the four consecutive fiscal quarters ending March 31, 2015 and June 30, 2015 from $20.6 million and $21.3 million, respectively, to $17.0 million for each quarter end. Amendment No. 1 also revised the minimum unrestricted cash and cash equivalents that we are required to hold from $10.0 million to $8.0 million for the reporting periods ended March 31, 2015 and June 30, 2015. In addition, Amendment No. 1 required that we make certain accelerated principal payments on the Term Loan totaling $4.5 million during the fourth quarter of fiscal year 2015.

On August 27, 2015 we entered into an Amendment No. 2 to Financing Agreement ("Amendment No. 2" and collectively, with the Term Loan, the "Credit Facility"). Amendment No. 2 revised the covenants related to minimum consolidated EBITDA (as defined in the amended Financing Agreement) for the four consecutive fiscal quarters ending September 30, 2015, December 31, 2015, March 31, 2016 and June 30, 2016 from $22.2 million, $23.1 million, $24.4 million and $25.6 million, respectively, to $14.5 million, $15.0 million, $17.0 million and $17.5 million, respectively. In addition, Amendment No. 2 requires that we make additional monthly accelerated principal payments on the Term Loan in the amount of $0.5 million commencing on October 15, 2015 and continuing until the Term Loan has been paid in full. Amendment No. 2 also requires that we make additional accelerated payments at the end of each calendar quarter in the amount of all unrestricted cash on hand as of the close of business on the last day of the quarter in excess of $12.5 million.

The Credit Facility contains customary negative covenants that, among other things, restrict us from undertaking specified corporate actions such as creation of liens, incurrence of additional indebtedness, making certain investments with affiliates, changes of control, having excess foreign cash, issuance of equity, repurchasing our equity securities, and making certain restricted payments, including dividends, without prior approval from the lender. At June 30, 2015, we were in compliance with the applicable non-financial and restrictive covenants under the Term Loan. Additionally, management anticipates that in the normal course of operations, we will be in compliance with the non-financial and restrictive covenants during the ensuing year.

The Credit Facility also contains various financial covenants that require us to maintain a certain consolidated EBITDA, certain leverage and fixed charges ratios as well as a minimum level of liquidity. Specifically, after giving effect to Amendment No. 1 and Amendment No. 2, we must:

- Have a consolidated EBITDA (as defined in the Financing Agreement) for the four consecutive fiscal quarters ending September 30, 2015, December 31, 2015, March 31, 2016 and June 30, 2016 of $14.5 million, $15.0 million, $17.0 million and $17.5 million, respectively. Our consolidated EBITDA requirement increases over time to $25.6 million for the four consecutive fiscal quarters ending September 30, 2016 and each period of four consecutive fiscal quarters ending each December 31, March 30, June 30, and September 30, thereafter;
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- Have a total leverage ratio (as defined in the Financing Agreement) of less than 1.78 to 1.00 for the quarter ended June 30, 2015. Our leverage ratio requirement decreases over time to 1.25 to 1.00 for the quarter ended June 30, 2016, and remains level thereafter;
- Have a fixed charge ratio (as defined in the Financing Agreement) of greater than 1.25 to 1.00 for the four consecutive fiscal quarters ending June 30, 2015 and for each of the four consecutive quarters ending thereafter; and

- For the fiscal quarter ending September 30, 2015 have no less than $7.0 million in unrestricted cash and cash equivalents at any time when the total leverage ratio is greater than 1.25 to 1.00, and for all fiscal quarters ending subsequent to September 30, 2015 have no less than $8.0 million in unrestricted cash and cash equivalents at any time when the total leverage ratio is greater than 1.25 to 1.00.

At June 30, 2015, we were in compliance with all applicable financial covenants including those under the amended Credit Facility. We anticipate that in the absence of a significant increase to our consolidated EBITDA we likely will not meet our consolidated EBITDA covenants for the reporting periods subsequent to June 30, 2016. We will work with our lender to further revise our financial covenants under the Credit Facility as needed. While we expect to be successful in negotiating with our lender to revise the consolidated EBITDA covenant to a level that will be achievable in light of our current business, it is possible that these negotiations will be unsuccessful.

Commitments and Obligations

The following table summarizes our contractual payment obligations and commitments as of June 30, 2015 (in thousands):

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Long-term debt obligations	$21,625	$11,141	$10,484	$—	$—
Interest on long-term debt obligations	1,993	1,444	549	—	—
Operating lease obligations	13,835	2,427	5,013	4,003	2,392
Total	$37,453	$15,011	$16,046	$4,003	$2,392

Off-Balance Sheet Arrangements

At June 30, 2015 and 2014, we had no off-balance sheet arrangements.

Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments, and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates. Our significant accounting policies are described in Note 2 to our financial statements. Certain of these significant accounting policies require us to make difficult, subjective, or complex judgments or estimates. We consider an accounting estimate to be critical if (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

There are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements. Management has discussed the development and selection of these critical accounting estimates with our board of directors, and the audit committee has reviewed the disclosures noted below.

Allowances for Product Returns

We record allowances for product returns at the time we ship the product based on estimated return rates. Subject to some exceptions based on local regulations, customers may return unopened product to us within 30 days of purchase for a refund of the purchase price less shipping and handling. As of June 30, 2015, our shipments of products sold totaling approximately $14.1 million were subject to our return policy. In addition, we allow terminating distributors to return up to 30% of unopened, unexpired product that they purchased within the prior twelve months.

We monitor our return estimate on an ongoing basis and revise the allowances to reflect our experience. Our allowance for product returns was $0.1 million at June 30, 2015, compared with $0.6 million at June 30, 2014. To date, product expiration dates have not played any role in product returns, and we do not expect they will in the future because it is unlikely that we will ship product with an expiration date earlier than the latest allowable product return date.

- 40-

Inventory Valuation

We value our inventory at the lower of cost or market value on a first-in, first-out basis. Accordingly, we reduce our inventories for the diminution of value resulting from product obsolescence, damage or other issues affecting marketability equal to the difference between the cost of the inventory and its estimated market value. Factors utilized in the determination of estimated market value include (i) current sales data and historical return rates, (ii) estimates of future demand, (iii) competitive pricing pressures, (iv) new production introductions, (v) product expiration dates, and (vi) component and packaging obsolescence.

We have recorded $0.3 million of obsolescence costs for the year ended June 30, 2015. For the year ended June 30, 2014 we recorded $0.8 million of inventory write-downs primarily related to our voluntary recall in December 2012.

Revenue Recognition

We ship the majority of our product directly to the consumer and receive substantially all payment for these sales in the form of credit card receipts. Revenue from direct product sales to customers is recognized upon passage of title and risk of loss.

Stock-Based Compensation

We use the fair value approach to account for stock-based compensation in accordance with current accounting guidance. We recognize compensation costs for awards with performance conditions when we conclude it is probable that the performance conditions will be achieved. We reassess the probability of vesting at each balance sheet date and adjust compensation costs based on our probability assessment. For awards with market conditions, the cost of the awards is recognized as the requisite service is rendered by the employees, regardless of when, if ever, the market conditions are satisfied.

Research and Development Costs

We expense all of our costs related to research and development activities as incurred.

Recently Issued Accounting Standards

Refer to “Item 8. Financial Statements and Supplementary Data” and Note 2 to our consolidated financial statements included in Item 15 of this report for discussion regarding the impact of accounting standards that were recently issued but not yet effective, on our consolidated financial statements.

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We conduct business in several countries and intend to continue to grow our international operations. Net revenue, operating income, and net income are affected by fluctuations in currency exchange rates and other uncertainties in doing business and selling products in more than one currency. In addition, our operations are exposed to risks associated with changes in social, political and economic conditions inherent in international operations, including changes in the laws and policies that govern international investment in countries where we have operations, as well as, to a lesser extent, changes in U.S. laws and regulations relating to international trade and investment.

Foreign Currency Risk

During the year ended June 30, 2015, approximately 30% of our net revenue was realized outside of the United States. The local currency of each international subsidiary is generally the functional currency. All revenues and expenses are translated at weighted average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. Currency fluctuations, however, have the opposite effect on our expenses incurred outside the U.S. Given the large portion of our business derived from Japan, any weakening of the Japanese Yen will negatively impact our reported revenue and profits, whereas a strengthening of the Japanese Yen will positively impact our reported revenue and profits. Because of the uncertainty of exchange rate fluctuations, it is difficult to predict the effect of these fluctuations on our future business, product pricing and results of operations or financial condition.

Changes in various currency exchange rates affect the relative prices at which we sell our products. We regularly monitor our foreign currency risks and periodically take measures to reduce the risk of foreign exchange rate fluctuations on our operating results. Additionally, we may seek to reduce our exposure to fluctuations in foreign currency exchange rates through the use of foreign currency exchange contracts. We do not use derivative financial instruments for trading or speculative purposes. At June 30, 2015, we did not have any derivative instruments. A 10% strengthening of the U.S. Dollar compared to all of the foreign currencies in which we transact business would have

resulted in a 2.8% decrease of our 2015 fiscal year revenue, in the amount of $5.2 million.

Following are the average currency exchange rates of U.S. $1 into local currency for each of our international or foreign markets:

	Year ended June 30, 2015					Year ended June 30, 2014			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Japan	103.93	114.47	119.17	121.35		98.93	100.41	102.83	102.15
Australia	1.08	1.17	1.27	$	353,402				

(1) Net income is allocated between limited partners and the general partner interest in accordance with the provisions of the partnership agreement. Net income allocated to the general partner includes incentive distributions declared subsequent to quarter end. Net income attributable to the limited partners is divided by the weighted average limited partner units outstanding in computing the limited partners' per unit interest in net income.

(2) Earnings before interest, taxes, depreciation and amortization (“EBITDA”) is calculated as net income attributable to Holly Energy Partners plus (i) interest expense net of interest income, (ii) state income tax and (iii) depreciation and amortization excluding amounts related to previous owners (“Predecessor”). EBITDA is not a calculation based upon generally accepted accounting principles (“GAAP”). However, the amounts included in the EBITDA calculation are derived from amounts included in our consolidated financial statements, with the exception of EBITDA from discontinued operations. EBITDA should not be considered 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. EBITDA is not necessarily comparable to similarly titled measures of other companies. EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance. EBITDA is also used by our management for internal analysis and as a basis for compliance with financial covenants.

Set forth below is our calculation of EBITDA.

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Income from continuing operations attributable to HEP	$105,525	$79,449	$94,152	$79,799	$56,323
Add (subtract):					
Interest expense	34,280	44,041	40,141	34,706	30,453
Interest income	(3)	(161)	—	—	(7)
Amortization of discount and deferred debt issuance costs	1,821	2,120	1,946	1,212	1,008
Loss on early extinguishment of debt	7,677	—	2,979	—	—
Amortization of unrealized loss attributable to discontinued cash flow hedge	—	849	5,095	41	2,540
State income tax	235	333	371	234	296
Depreciation and amortization	62,166	65,423	57,461	36,958	31,363
Predecessor depreciation and amortization	—	—	(7,903)	(3,184)	113
EBITDA	$211,701	$192,054	$194,242	$149,766	$122,089

(3) Distributable cash flow is not a calculation based upon GAAP. However, the amounts included in the calculation are derived from amounts presented in our consolidated financial statements, with the general exceptions of a billed crude revenue settlement, maintenance capital expenditures and distributable cash flow from discontinued operations. 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. Distributable cash flow is presented here because it is a widely accepted financial indicator used by investors to compare partnership performance. Also, it is used by management for internal analysis and for our performance units. We believe this measure provides investors an enhanced perspective of the operating performance of our assets and the cash our business is generating.

Set forth below is our calculation of distributable cash flow.

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Income from continuing operations attributable to HEP	$105,525	$79,449	$94,152	$79,799	$56,323
Add (subtract):					
Depreciation and amortization	62,166	65,423	57,461	36,958	31,363
Predecessor depreciation and amortization	—	—	(7,903)	(3,184)	113

Amortization of discount and deferred debt issuance costs	1,821	2,120	1,946	1,212	1,008
Amortization of unrealized loss attributable to discontinued cash flow hedge	—	849	5,095	41	2,540
Loss on early extinguishment of debt	7,677	—	2,979	—	—
Increase (decrease) in deferred revenue related to minimum revenue commitments	(2,503)	3,686	462	(6,405)	2,035
Maintenance capital expenditures [4]	(4,616)	(8,683)	(5,649)	(5,415)	(4,487)
Crude revenue settlement	—	918	3,670	(4,588)	—
Other non-cash adjustments	2,648	2,817	912	1,877	2,159
Distributable cash flow	$172,718	$146,579	$153,125	$100,295	$91,054

(4) Maintenance capital expenditures are 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, safety and to address environmental regulations.

(5) Includes $571 million, $363 million, $200 million, $159 million and $206 million in Credit Agreement advances that were classified as long-term debt at December 31, 2014, 2013, 2012, 2011 and 2010, respectively.

(6) As a master limited partnership, we distribute our available cash, which historically has exceeded our net income because depreciation and amortization expense represents a non-cash charge against income. The result is a decline in partners' equity since our regular quarterly distributions have exceeded our quarterly net income. Additionally, if the assets contributed and acquired from HFC while under common control of HFC had been acquired from third parties, our acquisition cost in excess of HFC's basis in the transferred assets of $305.3 million would have been recorded in our financial statements as increases to our properties and equipment and intangible assets instead of decreases to partners' equity.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Item 7, including but not limited to the sections on "Liquidity and Capital Resources," contains forward-looking statements. See "Forward-Looking Statements" at the beginning of Part I and Item 1A. "Risk Factors." In this document, the words "we," "our," "ours" and "us" refer to HEP and its consolidated subsidiaries or to HEP or an individual subsidiary and not to any other person.

OVERVIEW

HEP is a Delaware limited partnership. We own and operate petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities that support HFC's refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States and Alon's refinery in Big Spring, Texas. At December 31, 2014, HFC owned a 39% interest in us including the 2% general partnership interest. Additionally, we own a 75% interest in UNEV, the owner of a pipeline running from Woods Cross, Utah to Las Vegas, Nevada and related products terminals and a 25% joint venture interest in the SLC Pipeline, a 95-mile intrastate crude oil pipeline system that serves refineries in the Salt Lake City, Utah area.

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

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

In March 2013, we closed on a public offering of 1,875,000 of our common units. Additionally, an affiliate of HFC, as a selling unitholder, closed on a public sale of 1,875,000 of its HEP common units for which we did not receive any proceeds. We used our net proceeds of $73.4 million to repay indebtedness incurred under our credit facility and for general partnership purposes. Amounts repaid under our credit facility may be reborrowed from time to time, and we intend to reborrow certain amounts to fund capital expenditures.

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

We believe the growth of crude production in the Permian Basin and throughout the Mid-Continent and refining economics should support high utilization rates for the refineries we serve, which in turn will support volumes in our product pipelines, crude gathering system and terminals.

UNEV Pipeline Interest Acquisition
Under the terms of the transaction to acquire HFC's 75% interest in UNEV, we issued to HFC a Class B unit comprising a noncontrolling equity interest in a wholly-owned subsidiary subject to redemption to the extent that HFC is entitled to a 50% interest in our share of annual UNEV earnings before interest, income taxes, depreciation, and amortization above $30 million beginning July 1, 2016, and ending in June 2032, subject to certain limitations. However, to the extent earnings thresholds are not achieved, no redemption payments are required. Contemporaneously with this transaction, HFC (our general partner) agreed to forego its right to incentive distributions of up to $1.25 million per quarter over twelve consecutive quarterly periods following the closing of the transaction and up to an additional four quarters in certain circumstances. In connection with the transaction, we entered into 15-year throughput agreements with shippers containing minimum annual revenue commitments to us of $27 million.

Agreements with HFC and Alon
We serve HFC's refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 to 2026. Under these agreements, HFC agreed to transport, store and throughput volumes of refined product and crude oil on our pipelines and terminal, tankage and loading rack facilities that result in minimum annual payments to us. Additionally, such agreements require HFC to reimburse us for certain costs. These minimum annual payments or revenues are subject to annual tariff rate adjustments on July 1, based on the PPI or FERC index. As of December 31, 2014, these agreements with HFC will result in minimum annualized payments to us of $231.6 million.

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

We have a pipelines and terminals agreement with Alon expiring in 2020 under which Alon has agreed to transport on our pipelines and throughput through our terminals volumes of refined products that result in a minimum level of annual revenue that also is subject to annual tariff rate adjustments. We also have a capacity lease agreement under which we lease Alon space on our Orla to El Paso pipeline for the shipment of refined product. The terms under this lease agreement expire beginning in 2018 through 2022. As of December 31, 2014, these agreements with Alon will result in minimum annualized payments to us of $32.1 million.

A significant reduction in revenues under these agreements could have a material adverse effect on our results of operations.

Under certain provisions of the Omnibus Agreement that we have with HFC, we pay HFC an annual administrative fee ($2.3 million in 2014 and currently $2.4 million), for the provision by HFC of various general and administrative services to us on behalf of HLS. This fee does not include the salaries of personnel employed by HFC who perform services for us or the cost of their employee benefits, which are separately charged to us by HFC. We also reimburse HFC for direct expenses they incur on our behalf.

Under HLS's secondment arrangement with HFC, certain employees of HFC are seconded to HLS to provide operational and maintenance services for certain of our pipelines and tankage assets at the El Dorado and Cheyenne refineries, and HLS reimburses HFC for its prorated portion of the wages, benefits, and other costs of these employees for our benefit.

- 40 -

RESULTS OF OPERATIONS

Income, Distributable Cash Flow and Volumes
The following tables present income, distributable cash flow and volume information for the years ended December 31, 2014, 2013 and 2012.

	Years Ended December 31,		Change from
	2014	2013	2013
	(In thousands, except per unit data)		
Revenues			
Pipelines:			
Affiliates—refined product pipelines	$77,852	$66,441	$11,411
Affiliates—intermediate pipelines	29,813	25,397	4,416
Affiliates—crude pipelines	56,804	48,749	8,055
	164,469	140,587	23,882
Third parties—refined product pipelines	43,377	41,837	1,540
	207,846	182,424	25,422
Terminals, tanks and loading racks:			
Affiliates	110,726	111,781	(1,055)
Third parties	13,973	10,977	2,996
	124,699	122,758	1,941
Total revenues	332,545	305,182	27,363
Operating costs and expenses			
Operations (exclusive of depreciation and amortization)	104,801	99,444	5,357
Depreciation and amortization	62,166	65,423	(3,257)
General and administrative	10,824	11,749	(925)
	177,791	176,616	1,175
Operating income	154,754	128,566	26,188
Equity in earnings of SLC Pipeline	2,987	2,826	161
Interest expense, including amortization	(36,101)	(47,010)	10,909
Interest income	3	161	(158)
Loss on early extinguishment of debt	(7,677)	—	(7,677)
Gain on sale of assets	—	1,810	(1,810)
Other	82	61	21
	(40,706)	(42,152)	1,446
Income before income taxes	114,048	86,414	27,634
State income tax	(235)	(333)	98
Net income	113,813	86,081	27,732
Allocation of net loss income attributable to noncontrolling interests	(8,288)	(6,632)	(1,656)
Net income attributable to Holly Energy Partners	105,525	79,449	26,076
General partner interest in net income, including incentive distributions [1]	(34,667)	(27,523)	(7,144)
Limited partners' interest in net income	$70,858	$51,926	$18,932
Limited partners' earnings per unit—basic and diluted [1]	$1.20	$0.88	$0.32
Weighted average limited partners' units outstanding	58,657	58,246	411
EBITDA [2]	$211,701	$192,054	$19,647
Distributable cash flow [3]	$172,718	$146,579	$26,139

Volumes (bpd)
Pipelines:

Affiliates—refined product pipelines	119,156	107,493	11,663
Affiliates—intermediate pipelines	138,258	128,475	9,783
Affiliates—crude pipelines	199,600	161,391	38,209
	457,014	397,359	59,655
Third parties—refined product pipelines	64,055	63,337	718
	521,069	460,696	60,373
Terminals and loading racks:			
Affiliates	261,888	255,108	6,780
Third parties	69,100	63,791	5,309
	330,988	318,899	12,089
Total for pipelines and terminal assets (bpd)	852,057	779,595	72,462

	Years Ended December 31,		Change from
	2013	2012	2012
	(In thousands, except per unit data)		
Revenues			
Pipelines:			
Affiliates—refined product pipelines	$66,441	$67,682	$(1,241)
Affiliates—intermediate pipelines	25,397	28,540	(3,143)
Affiliates—crude pipelines	48,749	45,888	2,861
	140,587	142,110	(1,523)
Third parties—refined product pipelines	41,837	37,521	4,316
	182,424	179,631	2,793
Terminals, tanks and loading racks:			
Affiliates	111,781	103,472	8,309
Third parties	10,977	9,457	1,520
	122,758	112,929	9,829
Total revenues	305,182	292,560	12,622
Operating costs and expenses			
Operations (exclusive of depreciation and amortization)	99,444	89,242	10,202
Depreciation and amortization	65,423	57,461	7,962
General and administrative	11,749	7,594	4,155
	176,616	154,297	22,319
Operating income	128,566	138,263	(9,697)
Equity in earnings of SLC Pipeline	2,826	3,364	(538)
Interest expense, including amortization	(47,010)	(47,182)	172
Interest income	161	—	161
Loss on early extinguishment of debt	—	(2,979)	2,979
Gain on sale of assets	1,810	—	1,810
Other expense	61	10	51
	(42,152)	(46,787)	4,635
Income before income taxes	86,414	91,476	(5,062)
State income tax	(333)	(371)	38
Net income	86,081	91,105	(5,024)
Allocation of net loss attributable to Predecessors	—	4,200	(4,200)
Allocation of net income attributable to noncontrolling interests	(6,632)	(1,153)	(5,479)
Net income attributable to Holly Energy Partners	79,449	94,152	(14,703)
General partner interest in net income, including incentive distributions [1]	(27,523)	(22,450)	(5,073)
Limited partners' interest in net income	$51,926	$71,702	$(19,776)
Limited partners' earnings per unit—basic and diluted [1]	$0.88	$1.29	$(0.41)
Weighted average limited partners' units outstanding	58,246	55,696	2,550
EBITDA [2]	$192,054	$194,242	$(2,188)
Distributable cash flow [3]	$146,579	$153,125	$(6,546)
Volumes (bpd)			
Pipelines:			
Affiliates—refined product pipelines	107,493	107,509	(16)
Affiliates—intermediate pipelines	128,475	127,169	1,306
Affiliates—crude pipelines	161,391	171,040	(9,649)
	397,359	405,718	(8,359)

Third parties—refined product pipelines	63,337	63,152	185
	460,696	468,870	(8,174)
Terminals and loading racks:			
Affiliates	255,108	271,549	(16,441)
Third parties	63,791	53,456	10,335
	318,899	325,005	(6,106)
Total for pipelines and terminal assets (bpd)	779,595	793,875	(14,280)

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

(2) EBITDA is calculated as net income attributable to Holly Energy Partners plus (i) interest expense, net of interest income, (ii) state income tax and (iii) depreciation and amortization, excluding amounts related to Predecessor. EBITDA is not a calculation based upon GAAP. However, the amounts included in the EBITDA calculation are derived from amounts included in our consolidated financial statements, with the exception of EBITDA from discontinued operations. EBITDA should not be considered 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. EBITDA is not necessarily comparable to similarly titled measures of other companies. EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance. EBITDA is also used by our management for internal analysis and as a basis for compliance with financial covenants. See our calculation of EBITDA under Item 6, "Selected Financial Data."

(3) Distributable cash flow is not a calculation based upon GAAP. However, the amounts included in the calculation are derived from amounts presented in our consolidated financial statements, with the general exceptions of a billed crude revenue settlement, maintenance capital expenditures and distributable cash flow from discontinued operations. 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. Distributable cash flow is presented here because it is a widely accepted financial indicator used by investors to compare partnership performance. Also it is used by management for internal analysis and for our performance units. We believe that this measure provides investors an enhanced perspective of the operating performance of our assets and the cash our business is generating. See our calculation of distributable cash flow under Item 6, "Selected Financial Data."

Results of Operations — Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Summary

Net income attributable to HEP for the year ended December 31, 2014, was $105.5 million, a $26.1 million increase compared to the year ended December 31, 2013. This increase in earnings is due principally to higher pipeline and terminal volumes and annual tariff increases, as well as decreased interest expense due to the early retirement of our 8.25% Senior Notes in March 2014.

Revenues for the year ended December 31, 2014, include the recognition of $12.0 million of prior shortfalls billed to shippers in 2013. As of December 31, 2014, deferred revenue on our consolidated balance sheet related to shortfalls billed was $9.3 million. Such deferred revenue will be recognized in earnings either as (a) payment for shipments in excess of guaranteed levels, if and to the extent the pipeline system will have the necessary capacity to provide for shipments in excess of guaranteed levels, or (b) when shipping rights expire unused over the contractual make-up period.

Revenues

Total revenues for the year ended December 31, 2014, were $332.5 million, a $27.4 million increase compared to the year ended December 31, 2013. The revenue increase was due to the effect of annual tariff increases, increased

pipeline shipments and a $4.2 million increase in previously deferred revenue realized. Overall pipeline volumes were up 13% compared to the year ended December 31, 2013, largely due to low volumes in 2013 resulting from a major maintenance turnaround at HFC's Navajo refinery in the first quarter of 2013 as well as the reduced crude throughput at HFC's Navajo refinery during the fourth quarter of 2013.

Revenues from our refined product pipelines were $121.2 million, an increase of $13.0 million compared to the year ended December 31, 2013, primarily due to increased volumes and the effect of a $2.1 million increase in deferred revenue realized. Shipments averaged 183.2 thousand barrels per day (“mbpd”) compared to 170.8 mbpd for 2013.

Revenues from our intermediate pipelines were $29.8 million, an increase of $4.4 million on shipments averaging 138.3 mbpd compared to 128.5 mbpd for the year ended December 31, 2013. The increase in revenue is due to the effects of a $2.2 million increase in deferred revenue realized and increased volumes on intermediate pipeline segments.

Revenues from our crude pipelines were $56.8 million, an increase of $8.1 million on shipments averaging 199.6 mbpd compared to 161.4 mbpd for the year ended December 31, 2013. Revenues increased due to the annual tariff increases and higher volumes

resulting from the New Mexico gathering system expansion. In addition, volumes were lower in 2013 due to the turnaround at HFC's Navajo refinery and the fourth quarter 2013 processing constraints at HFC's Navajo refinery.

Revenues from terminal, tankage and loading rack fees were $124.7 million, an increase of $1.9 million compared to the year ended December 31, 2013. The increase in revenues is due principally to increased volumes. Refined products terminalled in our facilities increased to an average of 331.0 mbpd compared to 318.9 mbpd for 2013.

Operations Expense
Operations expense for the year ended December 31, 2014, increased by $5.4 million compared to the year ended December 31, 2013. This increase is due to higher maintenance costs and environmental accruals.

Depreciation and Amortization
Depreciation and amortization for the year ended December 31, 2014, decreased by $3.3 million compared to the year ended December 31, 2013, due principally to lower asset abandonment charges related to tankage permanently removed from service.

General and Administrative
General and administrative costs for the year ended December 31, 2014, decreased by $0.9 million compared to the year ended December 31, 2013, due to lower costs for professional services.

Equity in Earnings of SLC Pipeline
Our equity in earnings of the SLC Pipeline was $3.0 million and $2.8 million for the years ended December 31, 2014 and 2013.

Interest Expense
Interest expense for the year ended December 31, 2014, totaled $36.1 million, a decrease of $10.9 million compared to the year ended December 31, 2013. Our aggregate effective interest rate was 4.3% and 5.7% for the years ended December 31, 2014 and 2013, respectively.

Loss on Early Extinguishment of Debt
We recognized a charge of $7.7 million upon the early extinguishment of our 8.25% Senior Notes for the year ended December 31, 2014. This charge related to the premium paid to noteholders upon their tender of an aggregate principal amount of $150.0 million and related financing costs that were previously deferred.

Gain on Sale of Assets
The gain on the sale of assets for the year ended December 31, 2013, of $1.8 million is comprised of a gain of $2.0 million on the sale of property in El Paso, Texas, partially offset by a $0.2 million loss from the sale of our 50% ownership interest in product terminals located in Boise and Burley, Idaho.

State Income Tax
We recorded state income tax expense of $235,000 and $333,000 for the years ended December 31, 2014 and 2013, respectively, which is solely attributable to the Texas margin tax. Due to a statutory change in June 2013, there was a one-time charge of $366,000 to establish a deferred tax liability. We are subject to the Texas margin tax based on our Texas sourced taxable margin.

Results of Operations—Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Summary

Net income attributable to HEP for the year ended December 31, 2013, was $79.4 million, a $14.7 million decrease compared to the year ended December 31, 2012. This decrease in earnings is due principally to increased operating costs and expenses, including higher depreciation resulting from asset abandonment charges related to tankage permanently removed from service, combined with higher allocations of income to noncontrolling interests. Overall revenues increased but did not keep pace with the cost increases as pipeline volumes supporting HFC's Navajo refinery were reduced in 2013 as the refinery experienced a planned turnaround in the first quarter and unplanned refinery downtime in the fourth quarter. Limited partners' per unit interest in earnings decreased from $1.29 per unit in 2012 to $0.88 per unit in 2013 due to the income decreases combined with higher incentive distributions to the general partner.

Revenues for the year ended December 31, 2013, include the recognition of $7.8 million of prior shortfalls billed to shippers in 2012. As of December 31, 2013, deferred revenue on our consolidated balance sheet related to shortfalls billed was $12.0 million.

Revenues
Total revenues for the year ended December 31, 2013, were $305.2 million, a $12.6 million increase compared to the year ended December 31, 2012. The revenue increase was due to the effect of annual tariff increases, higher cost reimbursement receipts from HFC and a $1.5 million increase in previously deferred revenue realized. Overall pipeline volumes were down 2% compared to the year ended December 31, 2012.

Revenues from our refined product pipelines were $108.3 million, an increase of $3.1 million compared to the year ended December 31, 2012, primarily due to the effects of a $3.3 million increase in previously deferred revenue realized and annual tariff increases. Shipments averaged 170.8 mbpd compared to 170.7 mbpd for 2012.

Revenues from our intermediate pipelines were $25.4 million, a decrease of $3.1 million on shipments averaging 128.5 mbpd compared to 127.2 mbpd for the year ended December 31, 2012. The decrease in revenue is due to the effects of a $1.8 million decrease in deferred revenue realized and reduced volumes on certain high tariff pipeline segments.

Revenues from our crude pipelines were $48.7 million, an increase of $2.9 million on shipments averaging 161.4 mbpd compared to 171.0 mbpd for the year ended December 31, 2012. Although crude oil pipeline shipments were down, revenues increased due to the annual tariff increases and minimum billings on certain pipeline segments.

Revenues from terminal, tankage and loading rack fees were $122.8 million, an increase of $9.8 million compared to year ended December 31, 2012. The increase in revenues is due to annual fee increases and higher tank cost reimbursement receipts from HFC. Refined products terminalled in our facilities decreased to an average of 318.9 mbpd compared to 325.0 mbpd for 2012.

Operations Expense
Operations expense for the year ended December 31, 2013, increased by $10.2 million compared to the year ended December 31, 2012. This increase is due to higher maintenance costs, environmental accruals, employee costs and property taxes, offset by a $3.5 million net tax refund related to payroll costs covering a multi-year period.

Depreciation and Amortization
Depreciation and amortization for the year ended December 31, 2013, increased by $8.0 million compared to the year ended December 31, 2012 due principally to asset abandonment charges related to tankage permanently removed from service.

General and Administrative
General and administrative costs for the year ended December 31, 2013, increased by $4.2 million compared to the year ended December 31, 2012, due to increased employee costs.

Equity in Earnings of SLC Pipeline
Our equity in earnings of the SLC Pipeline was $2.8 million and $3.4 million for the years ended December 31, 2013 and 2012, respectively.

Interest Expense
Interest expense for the year ended December 31, 2013, totaled $47.0 million, a decrease of $0.2 million compared to the year ended December 31, 2012. Our aggregate effective interest rate was 5.7% and 6.5% for the years ended December 31, 2013 and 2012, respectively.

Loss on Early Extinguishment of Debt

We recognized a charge of $3.0 million upon the early extinguishment of our 6.25% Senior Notes ("6.25% Senior Notes") for the year ended December 31, 2012. This charge related to the premium paid to noteholders upon their tender of an aggregate principal amount of $185.0 million and related financing costs that were previously deferred.

Gain on Sale of Assets

The gain on the sale of assets for the year ended December 31, 2013, of $1.8 million is comprised of a gain of $2.0 million on the sale of property in El Paso, Texas, partially offset by a $0.2 million loss from the sale of our 50% ownership interest in product terminals located in Boise and Burley, Idaho.

State Income Tax
We recorded state income tax expense of $333,000 and $371,000 for the years ended December 31, 2013 and 2012, respectively, which is solely attributable to the Texas margin tax. We are subject to the Texas margin tax based on our Texas sourced taxable margin. Due to a statutory change that was enacted in June 2013, we are now able to deduct additional expenses which will result in lower cash taxes to HEP in the current and future years.

LIQUIDITY AND CAPITAL RESOURCES

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

During the year ended December 31, 2014, we received advances totaling $642.3 million and repaid $434.3 million, resulting in a net increase of $208.0 million under the Credit Agreement and an outstanding balance of $571.0 million at December 31, 2014. We have no letters of credit outstanding under the Credit Agreement at December 31, 2014. If any particular lender under the Credit Agreement could not honor its commitment, we believe the unused capacity that would be available from the remaining lenders would be sufficient to meet our borrowing needs. Additionally, we review publicly available information on the lenders in order to monitor their financial stability and assess their ongoing ability to honor their commitments under the Credit Agreement. We do not expect to experience any difficulty in the lenders’ ability to honor their respective commitments, and if it were to become necessary, we believe there would be alternative lenders or options available.

Under our registration statement filed with the SEC using a “shelf” registration process, we currently have the ability to raise up to $2.0 billion by offering securities, through one or more prospectus supplements that would describe, among other things, the specific amounts, prices and terms of any securities offered and how the proceeds would be used. Any proceeds from the sale of securities would be used for general business purposes, which may include, among other things, funding acquisitions of assets or businesses, working capital, capital expenditures, investments in subsidiaries, the retirement of existing debt and/or the repurchase of common units or other securities.

We believe our current cash balances, future internally generated funds and funds available under the Credit Agreement will provide sufficient resources to meet our working capital liquidity needs for the foreseeable future.

In February, May, August and November 2014, we paid regular quarterly cash distributions of $0.5000, $0.5075, $0.5150 and $0.5225, respectively, on all units in an aggregate amount of $154.7 million. Included in this aggregate amount were $31.5 million of incentive distribution payments to the general partner.

Contemporaneously with our UNEV Pipeline interest acquisition on July 12, 2012, HFC (our general partner) agreed to forego its right to incentive distributions of $1.25 million per quarter over twelve consecutive quarterly periods following the close of the transaction and up to an additional four quarters in certain circumstances.

Cash and cash equivalents decreased by $3.5 million during the year ended December 31, 2014. The cash flows provided by operating activities of $186.6 million were less than the cash flows used for financing and investing activities of $110.5 million and $79.7 million, respectively. Working capital increased by $9.7 million to $3.1 million at December 31, 2014 from a deficit of $6.6 million at December 31, 2013.

Cash Flows—Operating Activities
Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Cash flows from operating activities increased by $3.6 million from $183.1 million for the year ended December 31, 2013, to $186.6 million for the year ended December 31, 2014. This increase is due principally to $12.1 million of greater cash receipts for services performed in the year ended December 31, 2014, as compared to the prior year, partially offset by payments made for increased operating expenses.

Our major shippers are obligated to make deficiency payments to us if they do not meet their minimum volume shipping obligations. Under certain agreements with these shippers, they have the right to recapture these amounts if future volumes exceed minimum levels. We billed $12.0 million during the year ended December 31, 2013, related to shortfalls that subsequently expired without recapture and were recognized as revenue during the year ended December 31, 2014. Another $9.3 million is included as deferred revenue on our balance sheet at December 31, 2014, related to shortfalls billed during the year ended December 31, 2014.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012
Cash flows from operating activities increased by $21.9 million from $161.1 million for the year ended December 31, 2012, to $183.1 million for the year ended December 31, 2013. This increase is due principally to $30.7 million of greater cash receipts for services performed in the year ended December 31, 2013, as compared to the prior year, partially offset by payments made for increased operating expenses.

We billed $9.3 million during the year ended December 31, 2012, related to shortfalls that subsequently expired without recapture and were recognized as revenue during the year ended December 31, 2013. Another $12.0 million was included in our accounts receivable at December 31, 2013 related to shortfalls that occurred during the year ended December 31, 2013

Cash Flows—Investing Activities
Year Ended December 31, 2014 Compared with Year Ended December 31, 2013
Cash flows used for investing activities increased by $30.6 million from $49.1 million for the year ended December 31, 2013, to $79.7 million for the year ended December 31, 2014. During the years ended December 31, 2014 and 2013, we invested $80.0 million and $52.1 million in additions to properties and equipment, respectively. During the year ended December 31, 2013, we received $2.7 million proceeds from the sale of assets.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012
Cash flows used for investing activities increased by $6.5 million from $42.6 million for the year ended December 31, 2012 to $49.1 million for the year ended December 31, 2013. During the years ended December 31, 2013 and 2012, we invested $52.1 million and $42.9 million in additions to properties and equipment, respectively. During the year ended December 31, 2013, we received $2.7 million proceeds from the sale of assets. Distributions in excess of equity in earnings of the SLC Pipeline was $0.3 million for the years ended December 31, 2013 and 2012.

Cash Flows—Financing Activities
Year Ended December 31, 2014 Compared with Year Ended December 31, 2013
Cash flows used for financing activities were $110.5 million for the year ended December 31, 2014, compared to $132.9 million for the year ended December 31, 2013, a decrease of $22.4 million. During the year ended December 31, 2014, we received $642.3 million and repaid $434.3 million in advances under the Credit Agreement and paid $156.2 million to redeem the 8.25% Senior Notes. Additionally, we paid $154.7 million in regular quarterly cash distributions to our general and limited partners, paid $4.0 million to our noncontrolling interest and paid $3.6 million for the purchase of common units for recipients of our incentive grants. During the year ended December 31, 2013, we received $310.6 million and repaid $368.6 million in advances under the Credit Agreement and received net proceeds of $73.4 million from the common unit public offering. We paid $139.5 million in regular quarterly cash distributions to our general and limited partners, and paid $3.1 million to our noncontrolling interest. We received $1.5 million from our general partner, paid $1.3 million in financing costs to amend our Credit Agreement and paid $5.6 million for the purchase of common units for recipients of our incentive grants.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012
Cash flows used for financing activities were $132.9 million for the year ended December 31, 2013, compared to $119.7 million for the year ended December 31, 2012, an increase of $13.2 million. During the year ended December 31, 2013, we received $310.6 million and repaid $368.6 million in advances under the Credit Agreement, received net proceeds of $73.4 million from the common unit public offering and $1.5 million from the general partner to maintain its 2% interest. Additionally, we paid $139.5 million in regular quarterly cash distributions to our general and limited partners, and paid $5.6 million for the purchase of common units for recipients of our incentive grants. Also, we paid $3.1 million to our noncontrolling interest and paid $1.3 million in financing costs to amend our Credit Facility. During the year ended December 31, 2012, we received $587.0 million and repaid $366.0 million in advances under

the Credit Agreement, received net proceeds of $294.8 million from the issuance of our 6.5% Senior Notes and repaid $260.2 million of our notes. We paid HFC $260.9 million as partial consideration for the acquisition of HFC's 75% interest in UNEV. Additionally, we paid $122.8 million in regular quarterly cash distributions to our general and limited partners, we received $15.0 million from our noncontrolling interest, received $1.8 million from our general partner, paid $3.2 million in financing costs to amend our Credit Agreement and paid $4.9 million for the purchase of common units for recipients of our incentive grants.

Capital Requirements

Our pipeline and terminalling operations are capital intensive, requiring investments to maintain, expand, upgrade or enhance existing operations and to meet environmental and operational regulations. Our capital requirements have consisted of, and are expected to continue to consist of, maintenance capital expenditures and expansion capital expenditures. “Maintenance capital expenditures” represent capital expenditures to replace partially or fully depreciated assets to maintain the operating capacity of existing assets. Maintenance capital expenditures include expenditures required to maintain equipment reliability, tankage and

pipeline integrity, safety and to address environmental regulations. “Expansion capital expenditures” represent capital expenditures to expand the operating capacity of existing or new assets, whether through construction or acquisition. Expansion capital expenditures include expenditures to acquire assets, to grow our business and to expand existing facilities, such as projects that increase throughput capacity on our pipelines and in our terminals. Repair and maintenance expenses associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred.

Each year the board of directors of HLS approves our annual capital budget, which specifies capital projects that our management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, additional projects may be approved. The funds allocated for a particular capital project may be expended over a period in excess of a year, depending on the time required to complete the project. Therefore, our planned capital expenditures for a given year consist of expenditures approved for capital projects included in the current year's capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. The 2015 capital budget is comprised of $9.7 million for maintenance capital expenditures and $77.7 million for expansion capital expenditures. We expect the majority of the expansion capital budget to be invested in crude storage for HFC's El Dorado refinery, product distribution enhancements, new storage tanks, and an additional UNEV origin connection. In addition to our capital budget, we may spend funds periodically to perform capital upgrades or additions to our assets where a customer reimburses us for such costs. The upgrades or additions would generally benefit the customer over the remaining life of the related service agreements.

We substantially completed the expansion of our crude oil transportation system in southeastern New Mexico in the third quarter of 2014 in response to increased crude oil production in the area. The expansion provides shippers with additional pipeline takeaway capacity to either common carrier pipeline stations for transportation to major crude oil markets or to HFC's New Mexico refining facilities. To complete the project, we converted an existing refined products pipeline to crude oil service, constructed several new pipeline segments, expanded an existing pipeline, and built new truck unloading stations and crude storage capacity. Excluding the value of the existing pipeline converted, total capital expenditures were approximately $50 million. HFC has contracted to reimburse us for the increase over the original budget range of $35 million to $40 million over a five year period through an additional fee on shipped volumes. We estimate the project will provide increased capacity of up to 100,000 barrels per day across the system.

UNEV completed a project to enhance its product terminal in Las Vegas, Nevada in the third quarter of 2014 with total capital expenditures of approximately $15 million.

We have announced that we are evaluating the potential construction of several new tanks at HFC’s El Dorado Refinery as well as additional pipeline connections that could increase the refinery’s crude flexibility. As this potential project is still under consideration, the HLS board has not yet approved a capital budget for such project. We have received engineering estimates for this potential project. Alternatively, we are evaluating the potential purchase of existing tanks.

We expect that our currently planned maintenance capital expenditures, as well as expenditures for acquisitions and capital development projects, will be funded with cash generated by operations, the sale of additional limited partner common units, the issuance of debt securities and advances under our Credit Agreement, or a combination thereof.

Under the terms of the transaction to acquire HFC's 75% interest in UNEV, we issued to HFC a Class B unit comprising a noncontrolling equity interest in a wholly-owned subsidiary subject to redemption to the extent that HFC is entitled to a 50% interest in our share of annual UNEV earnings before interest, income taxes, depreciation and amortization above $30 million beginning July 1, 2016, and ending in June 2032, subject to certain limitations.

Credit Agreement

Our $650.0 million senior secured revolving credit facility expires in November 2018 (the “Credit Agreement”) and is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is also available to fund letters of credit up to a $50 million sub-limit.

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

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 0.625% to 1.50%) or (b) at a rate equal to the London Interbank Offered Rate ("LIBOR") plus an applicable margin (ranging from 1.625% 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). We incur a commitment fee on the unused portion of the Credit Agreement at an annual rate ranging from 0.30% to 0.45% based upon the ratio of our funded debt to EBITDA for the four most recently completed fiscal quarters.

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

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

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

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

Our purchase and contribution agreements with HFC with respect to the intermediate pipelines acquired in 2005 and the crude pipelines and tankage assets acquired in 2008, restrict us from selling these pipelines and terminals acquired from HFC. Under these agreements, we are restricted from prepaying borrowings and long-term debt to outstanding balances below $206 million prior to 2015 and $171 million prior to 2018, subject to certain limited exceptions.

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

	December 31, 2014	December 31, 2013
	(In thousands)	
Credit Agreement	$571,000	$363,000
6.5% Senior Notes		
Principal	300,000	300,000
Unamortized discount	(3,421)	(4,073)

	296,579	295,927
8.25% Senior Notes		
Principal	—	150,000
Unamortized discount	—	(1,297)
	—	148,703
Total long-term debt	$867,579	$807,630

See “Risk Management” for a discussion of our interest rate swaps.

Long-term Contractual Obligations
The following table presents our long-term contractual obligations as of December 31, 2014.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
	(In thousands)				
Long-term debt – principal	$871,000	$—	$—	$571,000	$300,000
Long-term debt - interest	156,795	31,886	63,773	51,386	9,750
Pipeline operating lease	16,770	6,708	10,062	—	—
Right-of-way leases	1,202	220	400	316	266
Other	13,823	1,785	3,388	2,356	6,294
Total	$1,059,590	$40,599	$77,623	$625,058	$316,310

Long-term debt consists of outstanding principal under the Credit Agreement and 6.5% Senior Notes. Interest on the credit agreement is calculated using the rate in effect at December 31, 2014.
The pipeline operating lease amounts above reflect the exercise of the 10-year extension, expiring in 2017, on our lease agreement for the refined products pipeline between White Lakes Junction and Kuntz Station in New Mexico.
Most of our right-of-way agreements are renewable on an annual basis, and the right-of-way lease payments above include only obligations under the remaining non-cancelable terms of these agreements at December 31, 2014. For the foreseeable future, we intend to continue renewing these agreements and expect to incur right-of-way expenses in addition to the payments listed.
Other contractual obligations consist of site service agreements with HFC, expiring in 2024 through 2026, for the provision of certain facility services and utility costs that relate to our assets located at HFC's refinery facilities.

Impact of Inflation
Inflation in the United States has been relatively moderate in recent years and did not have a material impact on our results of operations for the years ended December 31, 2014, 2013 and 2012. Historically, the PPI has increased an average of 2.2% annually over the past five calendar years.

The substantial majority of our revenues are generated under long-term contracts that provide for increases in our rates and minimum revenue guarantees annually for increases in the PPI. Certain of these contracts have provisions that limit the level of annual PPI percentage rate increases. Although the recent PPI increase may not be indicative of additional increases to be realized in the future, a significant and prolonged period of high inflation could adversely affect our cash flows and results of operations if costs increase at a rate greater than the fees we charge our shippers.

Environmental Matters
Our operation of pipelines, terminals, and associated facilities in connection with the storage and transportation of refined products is subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment, or otherwise relating to the protection of the environment. As with the industry generally, compliance with existing and anticipated laws and regulations increases our overall cost of business, including our capital costs to construct, maintain, and upgrade equipment and facilities. Although these laws and regulations affect our maintenance capital expenditures and net income, we do not believe they affect our competitive position as the operations of our competitors are similarly affected. We believe that our operations are in substantial compliance with applicable environmental laws and regulations. However, these laws and regulations, and the interpretation or enforcement thereof, are subject to frequent change by regulatory authorities, and we are unable to predict the ongoing cost to us of complying with these laws and regulations or the future impact of these laws and regulations on our operations. Violation of environmental laws, regulations, and permits can result in the imposition of significant administrative, civil and criminal penalties, injunctions, and construction bans or delays. A discharge of hydrocarbons or hazardous substances into the environment could, to the extent the event is not insured, subject us to

substantial expense, including both the cost to comply with applicable laws and regulations and claims made by employees, neighboring landowners and other third parties for personal injury and property damage. Contamination resulting from spills of refined products and crude oil is not unusual within the petroleum pipeline industry. Historic spills along our existing pipelines and terminals as a result of past operations have resulted in contamination of the environment, including soils and groundwater. Site conditions, including soils and groundwater, are being evaluated at a few of our properties where operations may have resulted in releases of hydrocarbons and other wastes, none of which we believe will have a significant

effect on our operations since the remediation of such releases would be covered under environmental indemnification agreements. For example, we have an environmental agreement with Alon with respect to pre-closing environmental costs and liabilities relating to the pipelines and terminals acquired from Alon in 2005, under which Alon will indemnify us subject to certain monetary and time limitations. In addition, under the Omnibus Agreement and certain transportation agreements and purchase agreements with HFC, HFC has agreed to indemnify us, subject to certain monetary and time limitations, for environmental noncompliance and remediation liabilities associated with certain assets transferred to us from HFC and occurring or existing prior to the date of such transfers. There are environmental remediation projects currently in progress that relate to certain assets acquired from HFC. Certain of these projects were underway prior to our purchase and represent liabilities of HFC for future remediation activities retained by HFC. Additionally, as of December 31, 2014, we have an accrual of $5.2 million that relates to environmental clean-up projects for which we have assumed liability or for which the indemnity provided for by HFC has expired or will expire. The remaining projects, including assessment and monitoring activities, are covered under the HFC environmental indemnification discussed above and represent liabilities of HFC.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

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

- the customer receiving the future services provided by these billings,
- the period in which the customer is contractually allowed to receive the services expires, or
- our determination that we will not be required to provide services within the allowed period.

We determine that we will not be required to provide services within the allowed period when, based on current and projected shipping levels, our pipeline systems will not have the necessary capacity to enable a customer to exceed its minimum volume levels to such a degree as to utilize the shortfall credit within its respective contractual shortfall make-up period.

Goodwill and Long-Lived Assets

Goodwill represents the excess of our cost of an acquired business over the fair value of the assets acquired, less liabilities assumed. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate goodwill may be impaired. We test goodwill at the reporting unit level for impairment annually and between annual tests if events or changes in circumstances indicate the carrying amount may exceed fair value. Recoverability is determined by comparing the estimated fair value of a reporting unit to the

carrying value, including the related goodwill, of that reporting unit. We use the present value of the expected future net cash flows and market multiple analyses to determine the estimated fair values of the reporting units. The impairment test requires the use of projections, estimates and assumptions as to the future performance of our operations. Actual results could differ from projections resulting in revisions to our assumptions, and if required, recognizing an impairment loss.

We evaluate long-lived assets, including finite-lived intangible assets, for potential impairment by identifying whether indicators of impairment exist and, if so, assessing whether the long-lived assets are recoverable from estimated future undiscounted cash flows. The actual amount of impairment loss, if any, to be recorded is equal to the amount by which a long-lived asset's carrying value exceeds its fair value.

There have been no impairments to goodwill or our long-lived assets as of December 31, 2014.

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

New Accounting Pronouncements

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

RISK MANAGEMENT

We use interest rate swaps (derivative instruments) to manage our exposure to interest rate risk.

As of December 31, 2014, we have three interest rate swaps, designated as a cash flow hedge, that hedge our exposure to the cash flow risk caused by the effects of LIBOR changes on $305.0 million of Credit Agreement advances. Our first interest rate swap effectively converts $155.0 million of our LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin of 2.00% as of December 31, 2014, which equaled an effective interest rate of 2.99%. This swap contract matures in February 2016. We also have two additional interest rate swaps with identical terms which effectively convert $150.0 million of our LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.00% as of December 31, 2014, which equaled an effective interest rate of 2.74%. Both of these swap contracts mature in July 2017.

We review publicly available information on our counterparties in order to monitor their financial stability and assess their ongoing ability to honor their commitments under the interest rate swap contracts. These counterparties are large financial institutions. Furthermore, we have not experienced, nor do we expect to experience, any difficulty in the counterparties honoring their respective commitments.

The market risk inherent in our debt positions is the potential change arising from increases or decreases in interest rates as discussed below.

At December 31, 2014, we had an outstanding principal balance on our 6.5% Senior Notes of $300 million. A change in interest rates generally would affect the fair value of the 6.5% Senior Notes, but not our earnings or cash flows. At December 31, 2014, the fair value of our 6.5% Senior Notes was $291.0 million. We estimate a hypothetical 10% change in the yield-to-maturity applicable to the 6.5% Senior Notes at December 31, 2014, would result in a change of approximately $8.5 million in the fair value of the underlying notes.

For the variable rate Credit Agreement, changes in interest rates would affect cash flows, but not the fair value. At December 31, 2014, borrowings outstanding under the Credit Agreement were $571.0 million. By means of our cash flow hedges, we have effectively converted the variable rate on $305.0 million of outstanding borrowings to a fixed rate. For the remaining unhedged Credit Agreement borrowings of $266.0 million, a hypothetical 10% change in interest rates applicable to the Credit Agreement would not materially affect our cash flows.

Our operations are subject to normal hazards of operations, including fire, explosion and weather-related perils. We maintain various insurance coverages, including business interruption insurance, subject to certain deductibles. We are not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in our judgment, do not justify such expenditures.

We have a risk management oversight committee that is made up of members from our senior management. This committee monitors our risk environment and provides direction for activities to mitigate, to an acceptable level, identified risks that may adversely affect the achievement of our goals.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. See “Risk Management” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of market risk exposures that we have with respect to our long-term debt. We utilize derivative instruments to hedge our interest rate exposure, as discussed under “Risk Management.”

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

Item 8. Financial Statements and Supplementary Data

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

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

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

Management assessed the Partnership's internal control over financial reporting as of December 31, 2014, using the criteria for effective control over financial reporting established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, management concluded that, as of December 31, 2014, the Partnership maintained effective internal control over financial reporting.

The Partnership's independent registered public accounting firm has issued an attestation report on the effectiveness of the Partnership's internal control over financial reporting as of December 31, 2014. That report appears on page 55.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Holly Energy Partners, L.P.'s (the "Partnership") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Holly Energy Partners, L.P.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on its Assessment of the Partnership's Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Holly Energy Partners, L.P. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Holly Energy Partners, L.P. as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, cash flows, and partners' equity for each of the three years in the period ended December 31, 2014, and our report dated February 25, 2015, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Dallas, Texas
February 25, 2015

Index to Consolidated Financial Statements

	Page Reference
Report of Independent Registered Public Accounting Firm	57
Consolidated Balance Sheets as of December 31, 2014 and 2013	58
Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012	59
Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	60
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	61
Consolidated Statements of Partners' Equity for the years ended December 31, 2014, 2013 and 2012	62
Notes to Consolidated Financial Statements	63

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Holly Energy Partners, L.P. (the "Partnership") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, cash flows, and partners' equity for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Holly Energy Partners, L.P. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows, for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Holly Energy Partners, L.P.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 25, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Dallas, Texas
February 25, 2015

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

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$2,830	$6,352
Accounts receivable:		
Trade	6,737	5,061
Affiliates	33,392	29,675
	40,129	34,736
Prepaid and other current assets	4,383	3,874
Total current assets	47,342	44,962
Properties and equipment, net	980,479	957,814
Transportation agreements, net	80,703	87,650
Goodwill	256,498	256,498
Investment in SLC Pipeline	24,478	24,741
Other assets	12,055	10,843
Total assets	$1,401,555	$1,382,508
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$12,642	$14,414
Affiliates	5,239	8,484
	17,881	22,898
Accrued interest	6,615	10,239
Deferred revenue	12,432	13,981
Accrued property taxes	2,703	2,603
Other current liabilities	4,571	1,845
Total current liabilities	44,202	51,566
Long-term debt	867,579	807,630
Other long-term liabilities	18,145	14,585
Deferred revenue	29,392	21,669
Class B unit	26,793	20,124
Equity:		
Partners' equity:		
Common unitholders (58,657,048 units issued and outstanding at December 31, 2014 and 2013)	468,813	516,147
General partner interest (2% interest)	(148,405)	(146,557)
Accumulated other comprehensive loss	(46)	(144)
Total partners' equity	320,362	369,446

Noncontrolling interest	95,082	97,488
Total equity	415,444	466,934
Total liabilities and equity	$1,401,555	$1,382,508

See accompanying notes.

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

	Years Ended December 31,		
	2014	2013	2012
Revenues:			
Affiliates	$275,196	$252,368	$245,582
Third parties	57,349	52,814	46,978
	332,545	305,182	292,560
Operating costs and expenses:			
Operations (exclusive of depreciation and amortization)	104,801	99,444	89,242
Depreciation and amortization	62,166	65,423	57,461
General and administrative	10,824	11,749	7,594
	177,791	176,616	154,297
Operating income	154,754	128,566	138,263
Other income (expense):			
Equity in earnings of SLC Pipeline	2,987	2,826	3,364
Interest expense	(36,101)	(47,010)	(47,182)
Interest income	3	161	—
Loss on early extinguishment of debt	(7,677)	—	(2,979)
Gain on sale of assets	—	1,810	—
Other income	82	61	10
	(40,706)	(42,152)	(46,787)
Income before income taxes	114,048	86,414	91,476
State income tax expense	(235)	(333)	(371)
Net income	113,813	86,081	91,105
Allocation of net loss attributable to Predecessors	—	—	4,200
Allocation of net income attributable to noncontrolling interests	(8,288)	(6,632)	(1,153)
Net income attributable to Holly Energy Partners	105,525	79,449	94,152
General partner interest in net income, including incentive distributions	(34,667)	(27,523)	(22,450)
Limited partners’ interest in net income	$70,858	$51,926	$71,702
Limited partners’ per unit interest in earnings—basic and diluted	$1.20	$0.88	$1.29
Weighted average limited partners’ units outstanding	58,657	58,246	55,696

See accompanying notes.

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

	Years Ended December 31,		
	2014	2013	2012
Net income	$113,813	$86,081	$91,105
Other comprehensive income:			
Change in fair value of cash flow hedging instruments	(2,104)	1,194	(4,418)
Amortization of unrealized loss attributable to discontinued cash flow hedge	—	849	5,095
Reclassification adjustment to net income on partial settlement of cash flow hedge	2,202	2,092	1,508
Other comprehensive income	98	4,135	2,185
Comprehensive income before noncontrolling interest	113,911	90,216	93,290
Allocation of comprehensive income to noncontrolling interests	(8,288)	(6,632)	(1,153)
Allocation of net loss attributable to Predecessors	—	—	4,200
Comprehensive income attributable to Holly Energy Partners	$105,623	$83,584	$96,337

See accompanying notes.

- 60 -

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

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net income	$113,813	$86,081	$91,105
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	62,166	65,423	57,461
Gain on sale of assets	—	(1,810)	—
Amortization of deferred charges	1,820	2,970	7,556
Amortization of restricted and performance units	3,539	3,575	2,858
Loss on early extinguishment of debt	7,677	—	2,979
(Increase) decrease in operating assets:			
Accounts receivable—trade	(1,676)	2,065	(3,997)
Accounts receivable—affiliates	(3,717)	1,919	(135)
Prepaid and other current assets	(510)	(255)	110
Increase (decrease) in operating liabilities:			
Accounts payable—trade	2,469	3,365	(9,003)
Accounts payable—affiliates	(3,245)	3,821	(1,811)
Accrued interest	(3,624)	13	1,945
Deferred revenue	6,173	15,255	11,333
Accrued property taxes	100	(85)	492
Other current liabilities	1,819	(45)	113
Other, net	(164)	788	143
Net cash provided by operating activities	186,640	183,080	161,149
Cash flows from investing activities			
Additions to properties and equipment	(79,959)	(52,101)	(42,861)
Proceeds from sale of assets	—	2,731	—
Distributions in excess of equity in earnings in SLC pipeline	263	300	262
Net cash used for investing activities	(79,696)	(49,070)	(42,599)
Cash flows from financing activities			
Borrowings under credit agreement	642,300	310,600	587,000
Repayments of credit agreement borrowings	(434,300)	(368,600)	(366,000)
Proceeds from issuance of senior notes	—	—	294,750
Proceeds from issuance of common units	—	73,444	—
Cash distribution to HFC for UNEV acquisition	—	—	(260,922)
Redemption of senior notes	(156,188)	—	(260,235)
Contributions from noncontrolling interests	—	—	15,000
Contributions from general partner	—	1,499	1,748
Distributions to HEP unitholders	(154,670)	(139,486)	(122,777)
Distributions to noncontrolling interest	(4,025)	(3,125)	—
Purchase of units for incentive grants	(3,577)	(5,634)	(4,919)
Deferred financing costs	—	(1,344)	(3,238)
Other	(6)	(249)	(89)
Net cash used by financing activities	(110,466)	(132,895)	(119,682)

Cash and cash equivalents			
Increase (decrease) for the year	(3,522)	1,115	(1,132)
Beginning of year	6,352	5,237	6,369
End of year	$2,830	$6,352	$5,237

See accompanying notes.

- 61 -

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

	Holly Energy Partners, L.P. Partners' Equity (Deficit):				
	Common Units	General Partner Interest	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance December 31, 2011	481,439	163,701	(6,464)	99,002	737,678
Capital contribution	—	10,286	—	3,000	13,286
Distributions to HEP unitholders	(99,744)	(23,033)	—	—	(122,777)
Purchase of 75% interest in UNEV from HFC:					
Cash distribution	—	(260,922)	—	—	(260,922)
Issuance of common units	45,839	(45,839)	—	—	—
Issuance of Class B unit	—	(12,200)	—	—	(12,200)
Purchase of units for incentive grants	(4,713)	—	—	—	(4,713)
Amortization of restricted and performance units	2,858	—	—	—	2,858
Class B unit accretion	(1,694)	(9)	—	—	(1,703)
Tankage and terminal assets acquired from HFC:					
Transferred basis in properties	7,947	—	—	—	7,947
Other	—	112	—	—	112
Net income	70,877	22,027	—	(1,799)	91,105
Other comprehensive income	—	—	2,185	—	2,185
Balance December 31, 2012	502,809	(145,877)	(4,279)	100,203	452,856
Issuance of common units	73,444	—	—	—	73,444
Capital contribution	—	1,499	—	—	1,499
Distributions to HEP unitholders	(112,039)	(27,447)	—	—	(139,486)
Distributions to noncontrolling interests	—	—	—	(3,125)	(3,125)
Purchase of units for incentive grants	(5,313)	—	—	—	(5,313)
Amortization of restricted and performance units	3,575	—	—	—	3,575
Class B unit accretion	(6,097)	(124)	—	—	(6,221)
Other	(248)	(263)	—	—	(511)
Net income	60,016	25,655	—	410	86,081
Other comprehensive income	—	—	4,135	—	4,135
Balance December 31, 2013	$516,147	$(146,557)	$ (144)	$ 97,488	$466,934
Distributions to HEP unitholders	(119,944)	(34,726)	—	—	(154,670)
Distributions to noncontrolling interests	—	—	—	(4,025)	(4,025)
Purchase of units for incentive grants	(3,577)	—	—	—	(3,577)
Amortization of restricted and performance units	3,539	—	—	—	3,539
Class B unit accretion	(6,534)	(134)	—	—	(6,668)
Net income	79,182	33,012	—	1,619	113,813
Other comprehensive income	—	—	98	—	98
Balance December 31, 2014	$468,813	$(148,405)	$ (46)	$ 95,082	$415,444

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

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

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

We operate in one reportable segment which represents the aggregation of our petroleum product and crude pipelines business and terminals, tankage and loading rack facilities operations.

We own and operate petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities that support HFC's refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States and Alon USA, Inc.'s ("Alon") refinery in Big Spring, Texas. Additionally, we own a 75% interest in the UNEV Pipeline, LLC ("UNEV"), which owns a 427-mile, 12-inch refined products pipeline running from Woods Cross, Utah to Las Vegas, Nevada (the "UNEV Pipeline"), product terminals near Cedar City, Utah and Las Vegas, Nevada and related assets, and a 25% interest in SLC Pipeline LLC, which owns a 95-mile intrastate crude oil pipeline system (the "SLC Pipeline") that serves refineries in the Salt Lake City, Utah area.

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

Principles of Consolidation and Common Control Transactions
The consolidated financial statements include our accounts and those of subsidiaries and joint ventures that we control through a 50% or more ownership interest. All significant inter-company transactions and balances have been eliminated.

Most of our asset acquisitions from HFC occurred while we were a consolidated variable interest entity of HFC. Therefore, as an entity under common control with HFC, we recorded these assets on our balance sheets at HFC's historical basis instead of our purchase price or fair value.

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

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

Accounts Receivable
The majority of the accounts receivable are due from affiliates of HFC, Alon or independent companies in the petroleum industry. Credit is extended based on evaluation of the customer's financial condition and, in certain

circumstances, collateral such as letters of credit or guarantees, may be required. Credit losses are charged to income when accounts are deemed uncollectible and historically have been minimal.

Properties and Equipment

Properties and equipment are stated at cost. Properties and equipment acquired from HFC while under common control of HFC are stated at HFC's historical basis. Depreciation is provided by the straight-line method over the estimated useful lives of the assets, primarily 15 to 25 years for terminal facilities and tankage, 25 to 32 years for pipelines and 5 to 10 years for corporate and other assets. We depreciate assets acquired under capital leases over the lesser of the lease term or the economic life of the assets. Maintenance, repairs and minor replacements are expensed as incurred. Costs of replacements constituting improvements are capitalized.

Transportation Agreements
The transportation agreement assets are stated at acquisition date fair value and are being amortized over the periods of the agreements using the straight-line method. See Note 5 for additional information on our transportation agreements.

Goodwill and Long-Lived Assets
Goodwill represents the excess of our cost of an acquired business over the fair value of the assets acquired, less liabilities assumed. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate goodwill may be impaired. We test goodwill at the reporting unit level for impairment annually and between annual tests if events or changes in circumstances indicate the carrying amount may exceed fair value. Recoverability is determined by comparing the estimated fair value of a reporting unit to the carrying value, including the related goodwill, of that reporting unit. We use the present value of the expected future net cash flows and market multiple analyses to determine the estimated fair values of the reporting units. The impairment test requires the use of projections, estimates and assumptions as to the future performance of our operations. Actual results could differ from projections resulting in revisions to our assumptions, and if required, recognizing an impairment loss.

We evaluate long-lived assets, including finite intangible assets, for potential impairment by identifying whether indicators of impairment exist and, if so, assessing whether the long-lived assets are recoverable from estimated future undiscounted cash flows. The actual amount of impairment loss, if any, to be recorded is equal to the amount by which a long-lived asset's carrying value exceeds its fair value.

There have been no impairments to goodwill or our long-lived assets as of December 31, 2014.

Investment in SLC Pipeline
We account for our 25% SLC Pipeline joint venture interest using the equity method of accounting, whereby we record our pro-rata share of earnings of the SLC Pipeline, and contributions to and distributions from the SLC Pipeline as adjustments to our investment balance. As of December 31, 2014, our underlying equity in the SLC Pipeline was $58.9 million compared to our recorded investment balance of $24.5 million, a difference of $34.4 million. We are amortizing this difference as an adjustment to our pro-rata share of earnings over the useful lives of the underlying assets of SLC Pipeline.

Asset Retirement Obligations
We record legal obligations associated with the retirement of certain of our long-lived assets that result from the acquisition, construction, development and/or the normal operation of our long-lived assets. The fair value of the estimated cost to retire a tangible long-lived asset is recorded in the period in which the liability is incurred and when a reasonable estimate of the fair value of the liability can be made. For our pipeline assets, the right-of-way agreements typically do not require the dismantling, removal and reclamation of the right-of-way upon cessation of the pipeline service. Additionally, management is unable to predict when, or if, our pipelines and related facilities would become obsolete and require decommissioning. Accordingly, we have recorded no liability or corresponding asset related to an asset retirement obligation for the majority of our pipelines as both the amounts and timing of such potential future costs are indeterminable. For our remaining assets, at December 31, 2014 and 2013, we have asset retirement obligations of $6.8 million and $6.5 million, respectively, that are recorded under “Other long-term liabilities” in our consolidated balance sheets.

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

- the customer receiving the future services provided by these billings,
- the period in which the customer is contractually allowed to receive the services expires, or
- our determination that we will not be required to provide services within the allowed period.

We determine that we will not be required to provide services within the allowed period when, based on current and projected shipping levels, our pipeline systems will not have the necessary capacity to enable a customer to exceed its minimum volume levels to such a degree as to utilize the shortfall credit within its respective contractual shortfall make-up period.

We have additional revenues under an operating lease to a third party of an interest in the capacity of one of our pipelines.

As of December 31, 2014, billings to customers under their minimum revenue commitments per the terms of long-term throughput agreements expiring in 2019 through 2026 and the third party operating lease will result in minimum annualized payments to us in the aggregate of $2.5 billion including $272.4 million for each of the next five years. These agreements provide for increases in the minimum revenue guarantees annually for increases in the Producer Price Index ("PPI") or the Federal Energy Regulatory Commission ("FERC") index, with certain contracts having provisions that limit the level of the rate increases.

We have other cost reimbursement provisions in our throughput / storage agreements providing that customers (including HFC) reimburse us for certain costs. Such reimbursement receipts are recorded as revenue or deferred revenue depending on the nature of the cost. Deferred revenue is recognized over the remaining contractual term of the related throughput agreement.

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

Environmental Costs
Environmental costs are expensed if they relate to an existing condition caused by past operations and do not contribute to current or future revenue generation. Liabilities are recorded when site restoration and environmental remediation, cleanup and other obligations are either known or considered probable and can be reasonably estimated. Such estimates require judgment with respect to costs, time frame and extent of required remedial and clean-up activities and are subject to periodic adjustments based on currently available information. At December 31, 2014 and 2013, we had accrued liabilities, measured on an undiscounted basis, net of expected recoveries from indemnifying parties, for environmental remediation obligations of $5.2 million and $3.6 million respectively, of which $2.3 million and $0.4 million, respectively, were classified as other current liabilities.
Under the Omnibus Agreement and certain transportation agreements and purchase agreements with HFC, HFC has agreed to indemnify us, subject to certain monetary and time limitations, for environmental noncompliance and remediation liabilities associated with certain assets transferred to us from HFC occurring or existing prior to the date of such transfers. We have an environmental agreement with Alon with respect to pre-closing environmental costs and liabilities relating to the pipelines and terminals acquired from Alon in 2005, under which Alon will indemnify us subject to certain monetary and time limitations. Environmental costs recoverable through insurance, indemnification agreements or other sources are included in other assets to the extent such recoveries are considered probable.

Income Tax
We are subject to the Texas margin tax that is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenues and expenses and therefore has the characteristics of an income tax.

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

Net income for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax bases and financial reporting bases of assets and liabilities and the taxable income allocation requirements under the partnership agreement.

Net Income per Limited Partners' Unit
We use the two-class method when calculating the net income per unit applicable to limited partners, which is based on the weighted-average number of common and subordinated units outstanding during the year. Net income per unit applicable to limited partners is computed by dividing limited partners' interest in net income, after adjusting for the allocation of net income or loss attributable to previous owners ("Predecessor"), the allocation of net income or loss attributable to noncontrolling interests and the general partner's 2% interest and incentive distributions and other

participating securities, by the weighted-average number of outstanding common, subordinated units and other dilutive securities. Other participating securities and dilutive securities are not significant.

New Accounting Pronouncements

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

Note 2: Acquisitions

2012 UNEV Acquisition
On July 12, 2012, we acquired HFC's 75% interest in UNEV for consideration consisting of $260.0 million in cash and 2,059,800 of our common units. We paid an additional $0.9 million to HFC for a post-closing working capital adjustment. We also issued HFC a Class B unit comprising a noncontrolling equity interest in a wholly-owned subsidiary subject to redemption to the extent that HFC is entitled to a 50% interest in our share of annual UNEV earnings before interest, income taxes, depreciation, and amortization above $30 million beginning July 1, 2016, and ending in June 2032, subject to certain limitations. Such contingent redemption payments are limited to a maximum payment amount calculated as described below. However, to the extent earnings thresholds are not achieved, no redemption payments are required. Contemporaneously with this transaction, HFC (our general partner) agreed to forego its right to incentive distributions of up to $1.25 million per quarter over twelve consecutive quarterly periods and up to an additional four quarters in certain circumstances. The Class B unit increases with each foregone incentive distribution and by a 7% factor compounded annually on the outstanding unredeemed balance through its expiration date. At our option, we may redeem, in whole or in part, the Class B unit at the current unredeemed value based on the calculation described. The Class B unit had a carrying value of $26.8 million at December 31, 2014, and $20.1 million at December 31, 2013.

Noncontrolling interests reported in the Consolidated Statements of Income include the minority partner's 25% interest in UNEV, foregone incentive distributions and the 7% accretion factor, which collectively amounted to $8.3 million at December 31, 2014, $6.6 million at December 31, 2013, and $1.2 million at December 31, 2012.

We are a consolidated variable interest entity of HFC. Therefore, this transaction was recorded as a transfer between entities under common control and reflects HFC's carrying basis in UNEV's assets and liabilities. We have retrospectively adjusted our financial position and operating results as if UNEV were a consolidated subsidiary for all periods while we were under common control of HFC. Results of operations of UNEV prior to our acquisition on July 12, 2012, are herein referred to as operations attributable to the Predecessor. For the year ended December 31, 2012, our consolidated statement of income includes revenues from UNEV of $18.7 million and net losses of $7.2 million. Predecessor revenues for the year ended December 31, 2012, are $8.1 million and Predecessor net losses are $4.2 million. At December 31, 2014, UNEV had transportation agreements with shippers that provide minimum annualized revenues of $27.1 million, of which $18.4 million relates to a transportation agreement with HFC.

Note 3: Financial Instruments

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

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

- (Level 1) Quoted prices in active markets for identical assets or liabilities.
- (Level 2) Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.
-

(Level 3) Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes valuation techniques that involve significant unobservable inputs.

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

Financial Instrument	Fair Value Input Level	December 31, 2014 Carrying Value (In thousands)	Fair Value	December 31, 2013 Carrying Value	Fair Value
Assets:					
Interest rate swaps	Level 2	$1,019	$1,019	$1,670	$1,670
Liabilities:					
Senior notes:					
6.5% Senior Notes	Level 2	$296,579	$291,000	$295,927	$313,500
8.25% Senior Notes	Level 2	—	—	148,703	158,250
		296,579	291,000	444,630	471,750
Interest rate swaps	Level 2	1,065	1,065	1,814	1,814
		$297,644	$292,065	$446,444	$473,564

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

See Note 7 for additional information on these instruments.

Note 4: Properties and Equipment

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

	December 31, 2014 (In thousands)	December 31, 2013
Pipelines, terminals and tankage	$1,137,157	$1,077,037
Land and right of way	64,458	63,425
Construction in progress	56,228	50,454
Other	22,636	19,997
	1,280,479	1,210,913
Less accumulated depreciation	300,000	253,099
	$980,479	$957,814

We capitalized $1.5 million and $0.6 million in interest related to construction projects during the years ended December 31, 2014 and 2013, respectively.

Depreciation expense was $54.7 million, $58.1 million, and $50.1 million for the years ended December 31, 2014, 2013 and 2012, respectively, and includes depreciation of assets acquired under capital leases. Asset abandonment charges of $1.9 million, $6.2 million and $4.8 million for assets permanently removed from service were included in depreciation expense for the years ended December 31, 2014, 2013 and 2012, respectively.

- 67 -

Note 5: Transportation Agreements

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

The carrying amounts of our transportation agreements are as follows:

	December 31, 2014	December 31, 2013
	(In thousands)	
Alon transportation agreement	$59,933	$59,933
HFC transportation agreement	74,231	74,231
	134,164	134,164
Less accumulated amortization	53,461	46,514
	$80,703	$87,650

Amortization expense was $6.9 million for each of the years ended December 31, 2014, 2013 and 2012, respectively.

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

Note 6: Employees, Retirement and Incentive Plans

Direct support for our operations is provided by Holly Logistic Services, L.L.C., an HFC subsidiary, which utilizes personnel employed by HFC who are dedicated to performing services for us. Their costs, including salaries, bonuses, payroll taxes, benefits and other direct costs, are charged to us monthly in accordance with an omnibus agreement that we have with HFC. These employees participate in the retirement and benefit plans of HFC. Our share of retirement and benefit plan costs was $7.4 million, $7.4 million and $6.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. These costs include retirement costs of $4.4 million, $5.0 million and $4.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

As of December 31, 2014, we have three types of incentive-based awards which are described below. The compensation cost charged against income was $3.5 million, $3.6 million and $2.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. We currently purchase units in the open market instead of issuing new units for settlement of all unit awards under our Long-Term Incentive Plan. As of December 31, 2014, 2,500,000 units were authorized to be granted under our Long-Term Incentive Plan, of which 1,530,748 have not yet been granted, assuming no forfeitures of the unvested units and full achievement of goals for the performance units already granted.

Restricted and Phantom Units

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

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

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

A summary of restricted unit and phantom unit activity and changes during the year ended December 31, 2014, is presented below:

Restricted and Phantom Units	Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2014 (nonvested)	122,951	$33.36
Granted	91,852	33.49
Vesting and transfer of full ownership to recipients	(80,645)	33.22
Forfeited	(8,081)	35.28
Outstanding at December 31, 2014 (nonvested)	126,077	$33.43

The fair values of restricted and phantom units that were vested and transferred to recipients during the years ended December 31, 2014, 2013 and 2012 were $2.7 million, $1.2 million and $2.4 million respectively. As of December 31, 2014, there was $3.0 million of total unrecognized compensation expense related to nonvested restricted unit and phantom unit grants, which is expected to be recognized over a weighted-average period of 1.5 years. For the years ended December 31, 2013 and 2012, the grant date closing unit price applied to the number of restricted units and phantom units ultimately awarded was $34.66 and $31.01 respectively.

Performance Units

Under our Long-Term Incentive Plan, we grant performance units to selected executives who perform services for us. Performance units granted are payable based upon the growth in our distributable cash flow per common unit over the performance period, and vest over a period of three years.

We granted 13,967 target performance units to certain officers in October 2014. These units will vest over a three year period ending December 31, 2017. The performance units granted are payable in HEP common units. The number of units actually earned will be based on the growth of our distributable cash flow per common unit over the performance period, and can range from 50% to 150% of the target number of performance units granted. Although common units are not transferred to the recipients until the performance units vest, the recipients have distribution rights with respect to the common units from the date of grant. The fair value of these performance units is based on the grant date closing unit price of $33.57 for the performance units granted in October 2014 and will apply to the number of units ultimately awarded. For the years ended December 31, 2013 and 2012, the weighted average grant date closing unit price applied to the number of units awarded was $37.90 and $30.61 respectively.

A summary of performance unit activity and changes during the twelve months ended December 31, 2014, is presented below:

Performance Units	Units
Outstanding at January 1, 2014 (nonvested)	75,216
Granted	13,967
Vesting and transfer of common units to recipients	(17,938)
Outstanding at December 31, 2014 (nonvested)	71,245

The grant date fair value of performance units vested and transferred to recipients was $0.5 million during each of the three years ended December 31, 2014, 2013 and 2012. Based on the weighted average fair value of performance units outstanding at December 31, 2014, of $2.6 million, there was $1.1 million of total unrecognized compensation expense related to nonvested performance units, which is expected to be recognized over a weighted-average period of 1.2 years.

During the year ended December 31, 2014, we paid $3.6 million for the purchase of our common units in the open market for the issuance and settlement of all unit awards under our Long-Term Incentive Plan.

Note 7: Debt

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

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

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 0.625% to 1.50%) or (b) at a rate equal to LIBOR plus an applicable margin (ranging from 1.625% 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 weighted-average interest rates on our Credit Agreement borrowings in effect at December 31, 2014 and 2013, were 2.152% and 2.163%, respectively. We incur a commitment fee on the unused portion of the Credit Agreement at an annual rate ranging from 0.30% to 0.45% based upon the ratio of our funded debt to EBITDA for the four most recently completed fiscal quarters.

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

Senior Notes
In March 2012, we issued $300 million in aggregate principal amount outstanding of 6.5% Senior Notes maturing March 2020. Net proceeds of $294.8 million were used in March and April 2012 to redeem $185.0 million aggregate principal amount of our 6.25% Senior Notes maturing March 1, 2015, tendered pursuant to a cash tender offer and consent solicitation, to repay $72.9 million in promissory notes related to our November 2011 acquisition of assets located at HFC's El Dorado and Cheyenne refineries, to pay related fees, expenses and accrued interest in connection with these transactions and to repay borrowings under the Credit Agreement. We recognized a charge of $3.0 million upon the early extinguishment of our 6.25% Senior Notes for the year ended December 31, 2012. This charge represents the premium paid to our 6.25% Senior Note holders upon their tender of an aggregate principal amount of $185.0 million and related net discount.

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

The 6.5% Senior Notes are unsecured and impose certain restrictive covenants, with which we are currently in compliance, including limitations on our ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the 6.5% Senior Notes are rated investment grade by both Moody’s and Standard & Poor’s and no default or event of

default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights at varying premiums over face value under the 6.5% Senior Notes.

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

Our purchase and contribution agreements with HFC with respect to the intermediate pipelines acquired in 2005 and the crude pipelines and tankage assets acquired in 2008, restrict us from selling these pipelines and terminals acquired from HFC. Under these agreements, we are restricted from prepaying borrowings and long-term debt to outstanding balances below $206 million prior to 2015 and $171 million prior to 2018, subject to certain limited exceptions.

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

	December 31, 2014	December 31, 2013
	(In thousands)	
Credit Agreement	$571,000	$363,000
6.5% Senior Notes		
Principal	300,000	300,000
Unamortized discount	(3,421)	(4,073)
	296,579	295,927
8.25% Senior Notes		
Principal	—	150,000
Unamortized discount	—	(1,297)
	—	148,703
Total long-term debt	$867,579	$807,630

Maturities of our long-term debt are as follows:

Years Ending December 31,	(In thousands)
2015	$—
2016	—
2017	—
2018	571,000
2019	—
Thereafter	300,000
Total	$871,000

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

As of December 31, 2014, we have three interest rate swaps that hedge our exposure to the cash flow risk caused by the effects of LIBOR changes on $305 million of Credit Agreement advances. Our first interest rate swap effectively converts $155 million of our LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin of 2.00% as of December 31, 2014, which equaled an effective interest rate of 2.99%. This swap contract matures in February 2016. We also have two additional interest rate swaps with identical terms which effectively convert $150 million of our LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.00% as of December 31, 2014, which equaled an effective interest rate of 2.74%. Both of these swap contracts mature in July 2017.

We have designated these interest rate swaps as cash flow hedges. Based on our assessment of effectiveness using the change in variable cash flows method, we have determined that these interest rate swaps are effective in offsetting the variability in interest payments on $305 million of our variable rate debt resulting from changes in LIBOR. Under hedge accounting, we adjust our cash flow hedges on a quarterly basis to their fair values with the offsetting fair value adjustments to accumulated other comprehensive income (loss). Also on a quarterly basis, we measure hedge effectiveness by comparing the present value of the cumulative change in the expected future interest to be paid or

received on the variable leg of our swaps against the expected future interest payments on $305 million of our variable rate debt. Any ineffectiveness is recorded directly to interest expense. As of December 31, 2014, we had no ineffectiveness on our cash flow hedges.

Prior to entering into our first swap contract (discussed above), we terminated our previous interest rate swap that prior to settlement

also served to hedge our exposure to the effects of LIBOR changes on the same $155 million Credit Agreement advance. We terminated this swap at a cost of $6 million, to lock in a lower effective interest rate on this $155 million advance, which by means of the previous swap contract was effectively fixed at 6.24% at the time of termination. This cost of terminating the swap was amortized as a charge to interest expense through February 2013, the remaining term of the terminated swap contract.

At December 31, 2014, we have accumulated other comprehensive loss of $46,000 that relates to our current cash flow hedging instruments. Approximately $0.5 million will be transferred from accumulated other comprehensive loss into interest expense as interest is paid on the underlying swap agreement over the next twelve-month period, assuming interest rates remain unchanged.

Additional information on our interest rate swaps is as follows:

Derivative Instrument	Balance Sheet Location	Fair Value	Location of Offsetting Balance	Offsetting Amount
	(In thousands)			
December 31, 2014				
Interest rate swaps designated as cash flow hedging instrument:				
Variable-to-fixed interest rate swap contract ($155 million of LIBOR based debt interest)	Other long-term liabilities	$(1,065)	Accumulated other comprehensive loss	$(1,065)
Variable-to-fixed interest rate swap contract ($150 million of LIBOR based debt interest)	Other long-term assets	1,019	Accumulated other comprehensive income	1,019
		$(46)		$(46)
December 31, 2013				
Interest rate swaps designated as cash flow hedging instrument:				
Variable-to-fixed interest rate swap contract ($155 million of LIBOR based debt interest)	Other long-term liabilities	$(1,814)	Accumulated other comprehensive loss	$(1,814)
Variable-to-fixed interest rate swap contract ($150 million of LIBOR based debt interest)	Other long-term assets	1,670	Accumulated other comprehensive income	1,670
		$(144)		$(144)

Interest Expense and Other Debt Information

Interest expense consists of the following components:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Interest on outstanding debt:			
Credit Agreement, net of interest on interest rate swaps	$13,350	$11,961	$8,736
6.5% Senior Notes	19,446	19,506	15,716
6.25% Senior Notes	—	—	2,422
8.25% Senior Notes	2,544	12,380	12,380
Promissory Notes	—	—	543
Amortization of discount and deferred debt issuance costs	1,821	2,120	1,946
Amortization of unrecognized loss attributable to terminated cash flow hedge	—	849	5,095
Commitment fees	450	835	621
Total interest incurred	37,611	47,651	47,459
Less capitalized interest	1,510	641	277

Net interest expense	$36,101	$47,010	$47,182
Cash paid for interest	$39,414	$44,655	$38,476

Note 8: Commitments and Contingencies

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

As of December 31, 2014, the minimum future rental commitments under operating leases having non-cancelable lease terms in excess of one year are as follows:

Years Ending December 31,	(In thousands)
2015	$6,928
2016	6,913
2017	3,549
2018	192
2019	124
Thereafter	266
Total	$17,972

Rental expense charged to operations was $8.0 million, $8.3 million and $8.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

We also have other long-term contractual obligations primarily consisting of long-term site service agreements with HFC, expiring in 2024 through 2026, for the provision of certain facility services and utility costs that relate to our assets located at HFC’s refinery facilities. At December 31, 2014, these minimum future contractual obligations having terms in excess of one year are as follows:

Years Ending December 31,	(In thousands)
2015	$1,067
2016	1,067
2017	1,067
2018	1,067
2019	1,032
Thereafter	6,294
Total	$11,594

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

Note 9: Significant Customers

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

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

	Years Ended December 31,		
	2014	2013	2012
HFC	83 %	83 %	84 %
Alon	10 %	11 %	11 %

Note 10: Related Party Transactions

We serve HFC's refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 to 2026. Under these agreements, HFC agrees to transport, store and throughput volumes of refined product and crude oil on our pipelines and terminal, tankage and loading rack facilities that result in minimum annual payments to

us. These minimum annual payments or revenues are subject to annual tariff rate adjustments on July 1st each year based on the Producer Price Index ("PPI") or Federal Energy Regulatory Commission ("FERC") index. As of December 31, 2014, these agreements with HFC will result in minimum payments to us of $231.6 million.

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

Under certain provisions of an omnibus agreement we have with HFC (the “Omnibus Agreement”), we pay HFC an annual administrative fee ($2.3 million in 2014 and currently $2.4 million) for the provision by HFC or its affiliates of various general and administrative services to us. This fee does not include the salaries of personnel employed by HFC who perform services for us on behalf of HLS or the cost of their employee benefits, which are charged to us separately by HFC. Also, we reimburse HFC and its affiliates for direct expenses they incur on our behalf.

Related party transactions with HFC are as follows:

- Revenues received from HFC were $275.2 million, $252.4 million and $245.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.
- HFC charged us general and administrative services under the Omnibus Agreement of $2.3 million for each of the years ended December 31, 2014, 2013 and 2012.
- We reimbursed HFC for costs of employees supporting our operations of $38.9 million, $34.6 million and $31.1 million for the years ended December 31, 2014, 2013 and 2012, respectively. Netted against the cost of employees for the year ended December 31, 2013, is a $3.5 million refund from HFC related to refunds of taxes covering a multi-year period.
- HFC reimbursed us $16.8 million, $21.6 million and $13.4 million for the years ended December 31, 2014, 2013 and 2012, respectively, for certain reimbursable costs and capital projects.
- We distributed $80.5 million, $71.4 million and $64.0 million, for the years ended December 31, 2014, 2013 and 2012, respectively, to HFC as regular distributions on its common units and general partner interest, including general partner incentive distributions.
- Accounts receivable from HFC were $33.4 million and $29.7 million at December 31, 2014 and 2013, respectively.
- Accounts payable to HFC were $5.2 million and $8.5 million at December 31, 2014 and 2013, respectively.
- Revenues for the years ended December 31, 2014, 2013 and 2012 include $10.1 million, $5.1 million and $7.8 million, respectively, of shortfall payments billed in 2013, 2012 and 2011, respectively, as HFC did not exceed its minimum volume commitment in any of the subsequent four quarters in 2014, 2013 and 2012. Deferred revenue in the consolidated balance sheets at December 31, 2014 and 2013, includes $7.3 million and $10.1 million, respectively, relating to certain shortfall billings. It is possible that HFC may not exceed its minimum obligations to receive credit for any of the $7.3 million deferred at December 31, 2014.
- We acquired from HFC a 75% interest in the UNEV Pipeline in July 2012. See Note 2 for a description of this transaction.

Note 11: Partners’ Equity, Income Allocations and Cash Distributions

As of December 31, 2014, HFC held 22,380,030 of our common units and the 2% general partner interest, which together constituted a 39% ownership interest in us.

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

Common Unit Issuances

2013 Issuances

In March 2013, we closed on a public offering of 1,875,000 of our common units. Additionally, an affiliate of HFC, as a selling unitholder, closed on a public sale of 1,875,000 of its HEP common units for which we did not receive any proceeds. We used our net proceeds of $73.4 million to repay indebtedness incurred under our credit facility and for general partnership purposes.

2012 Issuances
On July 12, 2012, we issued HFC 2,059,800 of our common units as partial consideration for our acquisition of its 75% interest in UNEV.

We received aggregate capital contributions of $1.7 million from our general partner to maintain its 2% general partner interest concurrent with the 2012 common unit issuance described above.

Under our registration statement filed with the SEC using a “shelf” registration process, $2.0 billion of securities have been registered. Any potential sale of such securities, through one or more prospectus supplements, would describe, among other things, the specific amounts, prices and terms of any securities offered and how the proceeds would be used. Any proceeds from the sale of securities would be used for general business purposes, which may include, among other things, funding acquisitions of assets or businesses, working capital, capital expenditures, investments in subsidiaries, the retirement of existing debt and/or the repurchase of common units or other securities.

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

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

	Years Ended December 31,		
	2014	2013	2012
	(in thousands)		
General partner interest in net income	$1,446	$1,059	$1,464
General partner incentive distribution	33,221	26,464	20,986
Total general partner interest in net income	$34,667	$27,523	$22,450

Cash Distributions
We consider regular cash distributions to unitholders on a quarterly basis, although there is no assurance as to the future cash distributions since they are dependent upon future earnings, cash flows, capital requirements, financial condition and other factors.

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

We make distributions in the following manner: 98% to our common unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter and any arrearages in payment of the minimum quarterly distributions for any prior quarters, thereafter. Cash in excess of the minimum quarterly distributions is distributed to the unitholders and the general partner based on certain percentages presented below.

- 75 -

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

	Total Quarterly Distribution	Marginal Percentage Interest in Distributions	
	Target Amount	Unitholders	General Partner
Minimum quarterly distribution	$0.25	98%	2%
First target distribution	Up to $0.275	98%	2%
Second target distribution	above $0.275 up to $0.3125	85%	15%
Third target distribution	above $0.3125 up to $0.375	75%	25%
Thereafter	Above $0.375	50%	50%

On January 22, 2015, we announced our cash distribution for the fourth quarter of 2014 of $0.53 per unit. The distribution is payable on all common and general partner units and was paid February 13, 2015, to all unitholders of record on February 2, 2015.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands, except per unit data)		
General partner interest in distribution	$3,264	$2,982	$2,566
General partner incentive distribution	33,221	26,464	20,986
Total general partner distribution	36,485	29,446	23,552
Limited partner distribution	121,714	114,675	102,222
Total regular quarterly cash distribution	$158,199	$144,121	$125,774
Cash distribution per unit applicable to limited partners	$2.075	$1.955	$1.835

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

Note 12: Quarterly Financial Data (Unaudited)
Summarized quarterly financial data is as follows:

	First	Second	Third	Fourth	Total
	(In thousands, except per unit data)				
Year Ended December 31, 2014					
Revenues	$87,004	$74,998	$82,130	$88,413	$332,545
Operating income	$45,453	$32,033	$38,925	$38,343	$154,754
Income before income taxes	$27,855	$24,478	$31,231	$30,484	$114,048
Net income	$27,780	$24,450	$31,189	$30,394	$113,813
Net income attributable to Holly Energy Partners	$24,143	$23,034	$29,680	$28,668	$105,525
Limited partners' per unit interest in net income – basic and diluted	$0.27	$0.25	$0.35	$0.33	$1.20
Distributions per limited partner unit	$0.508	$0.515	$0.523	$0.530	$2.075
Year Ended December 31, 2013					
Revenues	$74,298	$75,285	$77,723	$77,876	$305,182
Operating income	$31,047	$32,520	$34,173	$30,826	$128,566
Income before income taxes	$21,345	$21,641	$23,097	$20,331	$86,414
Net income	$21,289	$21,297	$23,057	$20,438	$86,081
Net income attributable to Holly Energy Partners	$18,399	$20,167	$21,885	$18,998	$79,449
Limited partners' per unit interest in net income – basic and diluted	$0.21	$0.23	$0.25	$0.19	$0.88
Distributions per limited partner unit	$0.478	$0.485	$0.493	$0.500	$1.955

Note 13: Supplemental Guarantor/Non-Guarantor Financial Information

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

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

Condensed Consolidating Balance Sheet

December 31, 2014	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$2	$2,828	$ —	$ —	$2,830
Accounts receivable	—	34,274	6,044	(189)	40,129
Prepaid and other current assets	212	2,856	1,315	—	4,383
Total current assets	214	39,958	7,359	(189)	47,342
Properties and equipment, net	—	596,988	383,491	—	980,479
Investment in subsidiaries	622,100	285,247	—	(907,347)	—
Transportation agreements, net	—	80,703	—	—	80,703
Goodwill	—	256,498	—	—	256,498
Investment in SLC Pipeline	—	24,478	—	—	24,478
Other assets	1,319	10,736	—	—	12,055
Total assets	$623,633	$1,294,608	$ 390,850	$ (907,536)	$1,401,555
LIABILITIES AND PARTNERS' EQUITY					
Current liabilities:					
Accounts payable	$—	$15,495	$ 2,575	$ (189)	$17,881
Accrued interest	6,500	115	—	—	6,615
Deferred revenue	—	5,672	6,760	—	12,432
Accrued property taxes	—	1,902	801	—	2,703
Other current liabilities	45	4,408	118	—	4,571
Total current liabilities	6,545	27,592	10,254	(189)	44,202
Long-term debt	296,579	571,000	—	—	867,579
Other long-term liabilities	147	17,731	267	—	18,145
Deferred revenue	—	29,392	—	—	29,392
Class B unit	—	26,793	—	—	26,793
Equity - partners	320,362	622,100	380,329	(1,002,429)	320,362
Equity - noncontrolling interest	—	—	—	95,082	95,082
Total liabilities and partners' equity	$623,633	$1,294,608	$ 390,850	$ (907,536)	$1,401,555

Condensed Consolidating Balance Sheet

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

Condensed Consolidating Statement of Comprehensive Income

Year Ended December 31, 2014	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$254,364	$ 22,073	$ (1,241)	$275,196
Third parties	—	45,711	11,638	—	57,349
	—	300,075	33,711	(1,241)	332,545
Operating costs and expenses:					
Operations (exclusive of depreciation and amortization)	—	93,382	12,660	(1,241)	104,801
Depreciation and amortization	—	47,592	14,574	—	62,166
General and administrative	2,658	8,166	—	—	10,824
	2,658	149,140	27,234	(1,241)	177,791
Operating income (loss)	(2,658)	150,935	6,477	—	154,754
Equity in earnings of subsidiaries	138,691	4,858	—	(143,549)	—
Equity in earnings of SLC Pipeline	—	2,987	—	—	2,987
Interest income	—	3	—	—	3
Interest expense	(22,831)	(13,270)	—	—	(36,101)
Loss on early extinguishment of debt	(7,677)	—	—	—	(7,677)
Other	—	82	—	—	82
	108,183	(5,340)	—	(143,549)	(40,706)
Income (loss) before income taxes	105,525	145,595	6,477	(143,549)	114,048
State income tax expense	—	(235)	—	—	(235)
Net income (loss)	105,525	145,360	6,477	(143,549)	113,813
Allocation of net (income) attributable to noncontrolling interests	—	—	—	(8,288)	(8,288)
Net income (loss) attributable to Holly Energy Partners	105,525	145,360	6,477	(151,837)	105,525
Other comprehensive (loss)	98	98	—	(98)	98
Comprehensive income (loss)	$105,623	$145,458	$ 6,477	$ (151,935)	$105,623

Condensed Consolidating Statement of Comprehensive Income

Year Ended December 31, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$236,336	$ 17,258	$ (1,226)	$252,368
Third parties	—	42,139	10,675	—	52,814
	—	278,475	27,933	(1,226)	305,182
Operating costs and expenses:					
Operations (exclusive of depreciation and amortization)	—	88,614	12,056	(1,226)	99,444
Depreciation and amortization	—	51,082	14,341	—	65,423
General and administrative	3,381	8,368	—	—	11,749
	3,381	148,064	26,397	(1,226)	176,616
Operating income (loss)	(3,381)	130,411	1,536	—	128,566
Equity in earnings of subsidiaries	115,850	1,231	—	(117,081)	—
Equity in earnings of SLC Pipeline	—	2,826	—	—	2,826
Interest income	—	56	105	—	161
Interest expense	(33,020)	(13,990)	—	—	(47,010)
Gain on sale of assets	—	1,810	—	—	1,810
Other	—	61	—	—	61
	82,830	(8,006)	105	(117,081)	(42,152)
Income (loss) before income taxes	79,449	122,405	1,641	(117,081)	86,414
State income tax expense	—	(333)	—	—	(333)
Net income (loss)	79,449	122,072	1,641	(117,081)	86,081
Allocation of net loss attributable to noncontrolling interests	—	—	—	(6,632)	(6,632)
Net income (loss) attributable to Holly Energy Partners	79,449	122,072	1,641	(123,713)	79,449
Other comprehensive income	4,135	4,135	—	(4,135)	4,135
Comprehensive income (loss)	$83,584	$126,207	$ 1,641	$ (127,848)	$83,584

Condensed Consolidating Statement of Comprehensive Income

Year Ended December 31, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$232,986	$ 13,754	$ (1,158)	$245,582
Third parties	—	41,984	4,994	—	46,978
	—	274,970	18,748	(1,158)	292,560
Operating costs and expenses:					
Operations (exclusive of depreciation and amortization)	—	78,766	11,634	(1,158)	89,242
Depreciation and amortization	—	43,147	14,314	—	57,461
General and administrative	3,336	4,258	—	—	7,594
	3,336	126,171	25,948	(1,158)	154,297
Operating income (loss)	(3,336)	148,799	(7,200)	—	138,263
Equity in earnings (loss) of subsidiaries	130,743	(5,400)	—	(125,343)	—
Equity in earnings of SLC Pipeline	—	3,364	—	—	3,364
Interest expense	(31,523)	(15,659)	—	—	(47,182)
Loss on early extinguishment of debt	(2,979)	—	—	—	(2,979)
Other	—	10	—	—	10
	96,241	(17,685)	—	(125,343)	(46,787)
Income (loss) before income taxes	92,905	131,114	(7,200)	(125,343)	91,476
State income tax expense	—	(371)	—	—	(371)
Net income (loss)	92,905	130,743	(7,200)	(125,343)	91,105
Allocation of net loss attributable to Predecessors	4,200	—	—	—	4,200
Allocation of net loss attributable to noncontrolling interests	(2,953)	—	—	1,800	(1,153)
Net income (loss) attributable to Holly Energy Partners	94,152	130,743	(7,200)	(123,543)	94,152
Other comprehensive (loss)	2,185	2,185	—	(2,185)	2,185
Comprehensive income (loss)	$96,337	$132,928	$ (7,200)	$ (125,728)	$96,337

- 82 -

Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2014	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash flows from operating activities	$(25,339)	$193,273	$ 19,398	$(692)	$186,640
Cash flows from investing activities					
Additions to properties and equipment	—	(71,758)	(8,201)	—	(79,959)
Distributions from UNEV	—	11,383	—	(11,383)	—
Distributions in excess of equity in earnings in SLC Pipeline	—	263	—	—	263
	—	(60,112)	(8,201)	(11,383)	(79,696)
Cash flows from financing activities					
Net borrowings under credit agreement	—	208,000	—	—	208,000
Net intercompany financing activities	339,771	(339,771)	—	—	—
Repayments of senior notes	(156,188)	—	—	—	(156,188)
Distributions to HEP unitholders	(154,670)	—	—	—	(154,670)
Distributions to noncontrolling interests	—	—	(16,100)	12,075	(4,025)
Purchase of units for incentive grants	(3,577)	—	—	—	(3,577)
Other	3	(9)	—	—	(6)
	25,339	(131,780)	(16,100)	12,075	(110,466)
Cash and cash equivalents					
Increase (decrease) for the period	—	1,381	(4,903)	—	(3,522)
Beginning of period	2	1,447	4,903	—	6,352
End of period	$2	$2,828	$ —	$ —	$2,830

Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash flows from operating activities	$(34,605)	$197,678	$ 20,007	$—	$183,080
Cash flows from investing activities					
Additions to properties and equipment	—	(45,085)	(7,016)	—	(52,101)
Proceeds from the sale of assets	—	2,731	—	—	2,731
Distributions from UNEV	—	9,375	—	(9,375)	—
Distribution in excess of equity in earnings in SLC Pipeline	—	300	—	—	300
	—	(32,679)	(7,016)	(9,375)	(49,070)
Cash flows from financing activities					
Net repayments under credit agreement	—	(58,000)	—	—	(58,000)
Net intercompany financing activities	105,031	(105,031)	—	—	—
Proceeds from issuance of common units	73,444	—	—	—	73,444
Distributions to noncontrolling interests	—	—	(12,500)	9,375	(3,125)
Contributions from general partner	1,499	—	—	—	1,499
Distributions to HEP unitholders	(139,486)	—	—	—	(139,486)
Purchase of units for restricted grants	(5,634)	—	—	—	(5,634)
Deferred financing costs	—	(1,344)	—	—	(1,344)
Other	(249)	—	—	—	(249)
	34,605	(164,375)	(12,500)	9,375	(132,895)
Cash and cash equivalents					
Increase for the period	—	624	491	—	1,115
Beginning of period	2	823	4,412	—	5,237
End of period	$2	$1,447	$ 4,903	$—	$6,352

Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash flows from operating activities	$(34,557)	$194,667	$ 1,039	$—	$161,149
Cash flows from investing activities					
Additions to properties and equipment	—	(28,134)	(14,727)	—	(42,861)
Distributions in excess of equity in earnings in SLC Pipeline	—	262	—	—	262
	—	(27,872)	(14,727)	—	(42,599)
Cash flows from financing activities					
Net borrowings under credit agreement	—	221,000	—	—	221,000
Proceeds from issuance of senior notes	294,750	—	—	—	294,750
Net intercompany financing activities	51,989	(51,989)	—	—	—
Cash distribution to HFC for UNEV acquisition	—	(260,922)	—	—	(260,922)
Redemption of senior notes	(185,000)	(75,235)	—	—	(260,235)
Contributions from UNEV joint venture partners	—	—	15,000	—	15,000
Contributions from general partner	1,748	—	—	—	1,748
Distributions to HEP unitholders	(122,777)	—	—	—	(122,777)
Purchase of units for restricted grants	(5,240)	321	—	—	(4,919)
Deferred financing costs	(913)	(2,325)	—	—	(3,238)
Other	—	(89)	—	—	(89)
	34,557	(169,239)	15,000	—	(119,682)
Cash and cash equivalents					
Increase (decrease) for the period	—	(2,444)	1,312	—	(1,132)
Beginning of period	2	3,267	3,100	—	6,369
End of period	$2	$823	$ 4,412	$—	$5,237

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

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

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Our principal executive officer and principal financial officer have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the “Exchange Act”), our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report on Form 10-K. Our disclosure controls and procedures are designed to provide reasonable assurance that the information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2014, at a reasonable level of assurance.

(b) Changes in internal control over financial reporting

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

See Item 8 for “Management’s Report on its Assessment of the Partnership’s Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm.”

Item 9B. Other Information

There have been no events that occurred in the fourth quarter of 2014 that would need to be reported on Form 8-K that have not been previously reported.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Holly Logistic Services, L.L.C. ("HLS"), the general partner of HEP Logistics Holdings, L.P. ("HEP Logistics"), our general partner, manages our operations and activities. Neither our general partner nor our directors are elected by our unitholders. Unitholders are not entitled to directly or indirectly participate in our management or operations. The sole member of HLS, which is a subsidiary of HFC, appoints the directors of HLS to serve until their death, resignation or removal.

Our general partner owes a fiduciary duty to our unitholders. Our general partner is liable, as general partner, for all of our debts (to the extent not paid from our assets), except for indebtedness or other obligations that are made specifically non-recourse to it. Whenever possible, our general partner intends to incur indebtedness or other obligations that are non-recourse.

Executive Officers

The following sets forth information regarding the executive officers of HLS as of February 13, 2015:

Name	Age	Position with HLS
Michael C. Jennings	49	Chief Executive Officer
Bruce R. Shaw	47	President
Douglas S. Aron	41	Executive Vice President and Chief Financial Officer
Mark T. Cunningham	55	Senior Vice President, Operations
Denise C. McWatters	55	Senior Vice President, General Counsel and Secretary

Certain executive officers of HLS are also officers of HFC or provide services to HFC. During 2014, Messrs. Shaw and Cunningham were the only HLS executive officers who spent all of their professional time managing our business and affairs. Messrs. Jennings and Aron and Ms. McWatters are also officers of HFC and devoted as much of their professional time in 2014 as was necessary to oversee the management of our business and affairs.

Information regarding Mr. Jennings is included below under "Directors."

Bruce R. Shaw was appointed President in November 2012. Mr. Shaw served as Senior Vice President and Chief Financial Officer from December 2011 until November 2012, Senior Vice President, Strategy and Corporate Development from July 2011 until December 2011, Senior Vice President and Chief Financial Officer from January 2008 until July 2011, and Vice President, Corporate Development from August 2004 to January 2007. Mr. Shaw served as Senior Vice President, Strategy and Corporation Development of HFC from July 2011 through December 2012, Senior Vice President and Chief Financial Officer of Holly Corporation from 2008 until the effective time of the merger between Holly Corporation and Frontier Oil Corporation in July 2011, and Vice President, Special Projects for Holly Corporation from September 2007 to December 2007. Mr. Shaw served on the Board of HLS from April 2007 to April 2008. Mr. Shaw briefly left Holly Corporation in June 2007 and served as President of Standard Supply and Distributing Company, Inc. and Bartos Industries, Ltd., two companies that are affiliated with each other in the heating, ventilation, and air conditioning industry. Mr. Shaw previously served Holly Corporation in various positions with increasing seniority from 1997 to 2007. Prior to joining Holly Corporation, Mr. Shaw was a consultant at McKinsey & Company, a global management consulting firm.

Douglas S. Aron was appointed Executive Vice President and Chief Financial Officer in November 2012. He previously served in such position from July 2011 until December 2011. Mr. Aron currently also serves as Executive Vice President and Chief Financial Officer of HFC since the merger of Holly Corporation and Frontier Oil Corporation in July 2011. Prior to joining HFC, Mr. Aron was Executive Vice President and Chief Financial Officer of Frontier Oil Corporation from 2009 until 2011. Additionally, he served as Vice President-Corporate Finance of Frontier Oil Corporation from 2005 to 2009 and Director-Investor Relations from 2001 to 2005. Prior to joining Frontier Oil Corporation, Mr. Aron was a lending officer for Amegy Bank.

Mark T. Cunningham was appointed Senior Vice President, Operations in January 2013. He previously served as Vice President, Operations from July 2007 to January 2013. He served Holly Corporation as Senior Manager of Special Projects from December 2006 through June 2007 and as Senior Manager of Integrity Management and Environmental, Health and Safety from July 2004 through December 2006. Prior to joining Holly Corporation, Mr. Cunningham served Diamond Shamrock/Ultramar Diamond Shamrock for 20 years in several engineering and pipeline operations capacities.

Denise C. McWatters was appointed Senior Vice President, General Counsel and Secretary in January 2013. Ms. McWatters also serves in a similar capacity for HFC. Ms. McWatters previously served as Vice President, General Counsel and Secretary from April 2008 until January 2013. She joined Holly Corporation in October 2007 with more than 20 years of legal experience and served as Deputy General Counsel of Holly Corporation until April 2008 and as Vice President, General Counsel and Secretary of HFC (formerly Holly Corporation) from April 2008 until January 2013. Ms. McWatters served as the General Counsel of The Beck Group from 2005 through 2007. Prior to joining The Beck Group, Ms. McWatters practiced law in various capacities at the predecessor firm to Locke Lord Bissell & Liddell LLP, the Law Offices of Denise McWatters, the legal department at Citigroup, N.A., and the law firm of Cox Smith Matthews Incorporated.

Board Leadership Structure

The Board of Directors of HLS (the “Board”) is responsible for selecting the Board leadership structure that is in the best interest of HLS and HEP. Effective January 1, 2014, the Board separated the positions of Chairman and Chief Executive Officer. Currently, Mr. Clifton serves as Chairman of the Board in a non-employee capacity, and Mr. Jennings serves as the Chief Executive Officer of HLS. The Board believes that at this time the separation of these positions enhances the oversight of management by the Board and HLS’s and HEP’s overall leadership structure. In addition, as a result of his former role as HLS’s Chief Executive Officer, Mr. Clifton has company-specific experience and expertise and as Chairman of the Board can identify strategic priorities, lead the discussion and execution of strategy, and facilitate the flow of information between management and the Board.

Presiding Director

Mr. Charles M. Darling, IV was appointed by the non-employee directors of HLS to serve as the lead independent director (the “Presiding Director”) of the Board. The Presiding Director has the following responsibilities:

- presiding at all executive sessions of the non-employee directors of the Board;
- consulting with management on Board and committee meeting agendas;
- acting as a liaison in appropriate instances between management and the non-employee directors, including advising the Chairman and the Chief Executive Officer on the efficiency of the Board meetings; and
- facilitating teamwork and communication between the non-employee directors and management.

Persons wishing to communicate with the non-employee directors are invited to email the Presiding Director at presiding.director.HEP@hollyenergy.com or write to: Charles M. Darling, IV, Presiding Director, c/o Secretary, Holly Logistic Services, L.L.C., 2828 N. Harwood, Suite 1300, Dallas, Texas 75201-1507. The Secretary will forward all communication to the appropriate director or directors, other than those communications that are merely solicitations for products or services or relate to matters that are of a type that are clearly improper or irrelevant to the functioning of the Board or the business and affairs of HLS and HEP.

Risk Management

The Board has an active role in overseeing management of the risks affecting HLS and HEP. The Board regularly reviews information regarding HLS and HEP's credit, liquidity and business and operations, as well as the risks associated with each. The Board committees are also engaged in overseeing risk associated with HLS and HEP.

- The Compensation Committee oversees the management of risks relating to HLS's executive compensation plans and arrangements.
- The Audit Committee oversees management of financial reporting and controls risks.

- The Conflicts Committee oversees specific matters that the Board or the Conflicts Committee believes may involve conflicts of interest with HFC.

While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board is ultimately responsible for the risk management of HLS and HEP and is regularly informed through committee reports about such risks.

The sole member of HLS manages risks associated with the independence of the Board. The Audit Committee and the Board also receive input and reports from HLS's risk management oversight committee on management's views of the risks facing HLS and HEP. The risk management oversight committee is made up of management personnel, none of whom serve on the Board and all of whom have a range of different backgrounds, skills and experiences with regard to the operational, financial and strategic risk profile of HLS and HEP. The risk management oversight committee monitors the risk environment for HLS and HEP as a whole, and reviews the activities that mitigate risks to an achievable and acceptable level.

Director Qualifications

The Board believes that it is necessary for each of HLS's directors to possess a variety of qualities and skills. When searching for new candidates, the sole member of HLS considers the evolving needs of the Board and searches for candidates that fill any current or anticipated future needs. The Board also believes that all directors must possess a considerable amount of business management, business leadership and educational experience. When considering director candidates, the sole member of HLS first considers a candidate's management experience and then considers issues of judgment, background, stature, conflicts of interest, integrity, ethics and commitment to the goal of maximizing unitholder value. The sole member of HLS also focuses on issues of diversity, such as diversity of education, professional experience and differences in viewpoints and skills. The sole member of HLS does not have a formal policy with respect to diversity; however, the Board and the sole member of HLS believe that it is essential that the Board members represent diverse viewpoints. In considering candidates for the Board, the sole member of HLS considers the entirety of each candidate's credentials in the context of these standards. All our directors bring to the Board executive leadership experience derived from their service in many areas.

Director Independence

The Board has determined that Messrs. Darling, William J. Gray, Jerry W. Pinkerton, P. Dean Ridenour, William P. Stengel and James G. Townsend meet the applicable criteria for independence under the currently applicable rules of the New York Stock Exchange.

Audit Committee. The Audit Committee of HLS is composed of three directors, Messrs. Pinkerton, Ridenour and Darling. The Board has determined that each member of the Audit Committee is "independent" as defined by the New York Stock Exchange listing standards and Rule 10A-3 of the Securities Exchange Act of 1934 (the "Exchange Act").

Conflicts Committee. The Conflicts Committee of HLS is composed of four directors, Messrs. Stengel, Pinkerton, Gray and Townsend. The Board has determined that each member of the Conflicts Committee is "independent" as defined by the New York Stock Exchange listing standards and Rule 10A-3 of the Exchange Act, as required by the Conflicts Committee Charter.

Compensation Committee. The Compensation Committee of HLS is composed of five directors, Messrs. Jennings, Darling, Gray, Stengel and Townsend. The Board has determined that each of Messrs. Darling, Gray, Stengel and Townsend is "independent" as defined by the New York Stock Exchange listing standards. Because we are a master limited partnership, Rule 303A.05 of the New York Stock Exchange Listed Company Manual, which requires a

publicly traded company to have a compensation committee composed entirely of independent directors, does not apply to us.

Independence Determinations. In making its independence determinations, the Board considered certain transactions, relationships and arrangements. In determining Mr. Ridenour's independence, the Board considered that Mr. Ridenour has not been employed by HFC or HLS since 2008 and has not received compensation in excess of $120,000 since 2009. In determining Mr. Townsend's independence, the Board considered that Mr. Townsend has not been employed by HFC or HLS since 2011 and has not received compensation in excess of $120,000 since 2011. The Board has determined that these historical relationships do not impair Mr. Ridenour's or Mr. Townsend's independence. In addition, in determining Mr. Clifton's and Mr. Gray's independence, the Board considered the consulting fees each of them receives from HFC and determined that such consulting fees do not impair their independence.

Code of Ethics

HLS has adopted a Code of Business Conduct and Ethics that applies to all of its officers, directors and employees, including HLS's principal executive officer, principal financial officer, and principal accounting officer. The purpose of the Code of Business Conduct and Ethics is to, among other things, affirm HLS's and HEP's commitment to a high standard of integrity and ethics. The Code sets forth a common set of values and standards to which all of HLS's officers, directors and employees must adhere. We will post information regarding an amendment to, or a waiver from, the Code of Business Conduct and Ethics on our website.

Copies of our Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, and Code of Business Conduct and Ethics are available on our website at www.hollyenergy.com. Copies of these documents may also be obtained free of charge upon written request to Holly Energy Partners, L.P., Attention: Vice President, Investor Relations, 2828 N. Harwood, Suite 1300, Dallas, Texas, 75201-1507.

The Board, Its Committees and Director Compensation

Directors

The following individuals serve as directors of HLS:

Matthew P. Clifton Director since July 2004. Age 63.

Principal Occupation: Chairman of the Board of HLS

Business Experience: Mr. Clifton has served as Chairman of the Board of HLS, in a non-employee capacity, since February 2014. Mr. Clifton also serves as a consultant for HFC since June 2014. Mr. Clifton previously served as Executive Chairman of HLS from January 2014 until his retirement in February 2014, as Chairman of the Board and Chief Executive Officer of HLS from March 2004 through December 2013 and as President of HLS from July 2011 to November 2012. Mr. Clifton joined Holly Corporation in 1980 and served as the Executive Chairman of HFC from July 2011 through December 2012. Mr. Clifton previously served as Chief Executive Officer of Holly Corporation from 2006 until the merger with Frontier Oil Corporation in July 2011, as Chairman of the Board of Holly Corporation from April 2007 until the merger with Frontier Oil Corporation in July 2011 and as President of Holly Corporation from 1995 until 2006.

Additional Directorships: Mr. Clifton served as a director of HFC from 1995 through December 2012.

Qualifications: Mr. Clifton has extensive knowledge of the operations of HLS and HEP, the refining industry and macro-economic conditions, as well as valuable industry relationships throughout the country. Mr. Clifton brings a unique and valuable perspective as well as an understanding of HLS's and HEP's history, culture, vision and strategy to the Board.

Charles M. Darling, IV Director since July 2004. Age 66.

Principal Occupation: President of DQ Holdings, L.L.C.

Business Experience:	Mr. Darling has served as President of DQ Holdings, L.L.C., a venture capital investment and consulting firm focused primarily on opportunities in the energy industry, since August 1998. Mr. Darling was previously the General Manager of Desert Power, LP and of its general partner, Desert Power, LLC, which was an indirect affiliate of DQ Holdings, L.L.C. In late 2006, Desert Power, LLC and Desert Power, LP, along with certain of their subsidiaries, filed for bankruptcy in Nevada. In late 2007, the bankruptcy court approved the plan of reorganization, which became final in accordance with its terms in early 2008. Mr. Darling also previously practiced law at the law firm of Baker Botts, L.L.P. for over 20 years.
Qualifications:	Mr. Darling has significant experience addressing financial, legal, regulatory and risk matters affecting HLS and HEP. His service as a partner of a major international law firm practicing energy law, as President and General Counsel of a publicly traded energy company with a publicly traded pipelines

master limited partnership and his subsequent endeavors in the energy industry as President of an investment and development firm provide him with valuable insight into our industry. Mr. Darling's leadership skills, management and legal experience make him particularly well suited to be our Presiding Director.

William J. Gray Director since April 2008. Age 74.

Principal Occupation: Private Consultant

Business Experience:	Mr. Gray is a private consultant. He served as a member of the New Mexico House of Representatives from November 2006 until January 2015. Mr. Gray has served as a governmental affairs consultant for HFC since January 2003. He also served as a consultant to Holly Corporation from October 1999 through September 2001. Mr. Gray served as a director of Holly Corporation from September 1996 until May 2008. Mr. Gray was employed by Holly Corporation for over 30 years and retired in October 1999 at which time Mr. Gray was Senior Vice President, Marketing and Supply.
Qualifications:	Mr. Gray brings to the Board forty years of experience in pipeline, refining, and marketing and supply. Mr. Gray also brings business and management expertise and extensive knowledge of, and a unique perspective on, regulatory matters affecting our industry as a result of his government experience.

Michael C. Jennings Director since October 2011. Age 49.

Principal Occupation: Chief Executive Officer and President of HFC and Chief Executive Officer of HLS

Business Experience:	Mr. Jennings was appointed as Chief Executive Officer of HLS in January 2014. Mr. Jennings has served as the Chief Executive Officer and President of HFC since the merger of Holly Corporation and Frontier Oil Corporation in July 2011 and as Chairman of the Board of HFC since January 2013. Mr. Jennings previously served as the President and Chief Executive Officer of Frontier Oil Corporation from 2009 until the merger in July 2011 and as the Executive Vice President and Chief Financial Officer of Frontier Oil Corporation from 2005 until 2009.
Additional Directorships:	Mr. Jennings currently serves as the Chairman of the Board and a director of HFC and a director of ION Geophysical Corporation. Mr. Jennings served as a director of Frontier Oil Corporation from 2008 until the merger in July 2011 and as Chairman of the board of directors of Frontier Oil Corporation from 2010 until the merger in July 2011.
Qualifications:	Mr. Jennings provides valuable and extensive industry knowledge and experience. His knowledge of the day-to-day operations of HFC provides a significant resource for the Board and facilitates discussions between the Board and HFC management.

Jerry W. Pinkerton Director since July 2004. Age 74.

Principal Occupation: Retired

Business Experience:	Mr. Pinkerton retired in December 2003. From December 2000 to December 2003, Mr. Pinkerton served as a consultant to TXU Corp. (now Energy Future Holdings Corp.), and from August 1997 to December 2000, Mr. Pinkerton served as Controller of TXU Corp. and its U.S. subsidiaries. Mr. Pinkerton previously served as the Vice President and Chief Accounting Officer of ENSERCH Corporation and was employed for 26 years as an auditor by Deloitte Haskins & Sells, a predecessor firm of Deloitte & Touche, LLP, including 15 years as an audit partner.
Additional Directorships:	Since April 2012, Mr. Pinkerton has served on the board of directors of Southcross Energy Partners GP, LLC, the general partner of Southcross Energy Partners, L.P., and serves as the chair of the audit and conflicts committees of the board of directors of Southcross Energy Partners GP, LLC. Mr. Pinkerton served on the board of directors of Animal Health International, Inc., and served as chair of its audit committee, from May 2008 to June 2011.
Qualifications:	Mr. Pinkerton brings to the Board his audit, accounting and financial reporting expertise and a level of financial sophistication that qualifies him as an audit committee financial expert. Due to his executive management experience with public companies and public accounting firms, Mr. Pinkerton possesses business and management expertise that provide an invaluable insight into HLS's and HEP's business.

P. Dean Ridenour Director since August 2004. Age 73.

Principal Occupation: Retired

Business Experience:	Mr. Ridenour retired in February 2010. Mr. Ridenour provided consulting services to Holly Corporation from January 2008 until February 2010, and served as Vice President and Chief Accounting Officer of Holly Corporation and HLS from January 2005 to January 2008. Mr. Ridenour served as Vice President, Special Projects of Holly Corporation from August 2004 to December 2004 and prior to becoming a full-time employee, provided full-time consulting services to Holly Corporation beginning in October 2002. Mr. Ridenour was employed for 34 years by Ernst & Young LLP, including 20 years as an audit partner, prior to retiring from such position in 1997.
Qualifications:	Mr. Ridenour's management experience and his accounting and financial reporting expertise qualify him as an audit committee financial expert and make him a valuable member of the Board. In addition, Mr. Ridenour's prior experience at HLS and Holly Corporation provide him with a deep understanding of our business and industry.

William P. Stengel Director since July 2004. Age 66.

Principal Occupation: Retired

Business Experience:	Mr. Stengel retired in May 2003. From 1997 to May 2003, Mr. Stengel served as Managing Director of the global energy and mining group at Citigroup/Citibank, N.A.

Qualifications:	Mr. Stengel's executive management experience in public companies, banking and financial expertise, and general business and management expertise provides him with significant insight into our operations, management and finance.

James G. Townsend Director since January 2012. Age 60.

Principal Occupation: Member of the New Mexico House of Representatives

Business Experience:	Mr. Townsend has served as a member of the New Mexico House of Representatives since January 2015. Mr. Townsend retired from HFC in December 2011. He was employed by Holly Corporation (and HFC) and/or HLS for more than 25 years. From 2008 until his retirement, Mr. Townsend served as Senior Vice President of UNEV Pipeline, LLC, a joint venture between Sinclair Oil Corporation and a subsidiary of HEP. Mr. Townsend served as Vice President, Operations for HLS from 2004 to 2007 and was responsible for all pipeline and terminal operations for Holly Corporation prior to the formation of HEP. Prior to such time, Mr. Townsend served in positions of increasing seniority at Holly Corporation.
Qualifications:	Mr. Townsend brings to the Board his knowledge of the operations of HFC, HLS and their subsidiaries, his 25 years of experience in the industry, and his business expertise.

None of our directors reported any litigation for the period from 2005 to 2015 that is required to be reported in this Annual Report on Form 10-K.

The Board

Under the Company's Governance Guidelines, Board members are expected to prepare for, attend and participate in all meetings of the Board and Board committees on which they serve. During 2014, the Board held ten meetings. Each director attended at least 75% of the total number of meetings of the Board and committees on which he served.

Board Committees

The Board currently has four standing committees:

- an Audit Committee;
- a Compensation Committee;
- a Conflicts Committee; and
- an Executive Committee.

Other than the Executive Committee, each of these committees operates under a written charter adopted by the Board.

During 2014, the Audit Committee held eight meetings, the Conflicts Committee held five meetings and the Compensation Committee held four meetings.

The Board appoints committee members annually. The following table sets forth the current composition of our committees:

Name	Executive Committee	Audit Committee	Compensation Committee	Conflicts Committee
Matthew P. Clifton	x (Chair)			
Charles M. Darling, IV		x	x (1)	
William J. Gray			x	x
Michael C. Jennings	x		x (Chair)	
Jerry W. Pinkerton	x	x (Chair)		x

P. Dean Ridenour		x		
William P. Stengel	x		x	x (Chair)
James G. Townsend			x	x

(1) Mr. Darling serves as the chairman of the subcommittee of the Compensation Committee.

Audit Committee

The functions of the Audit Committee include the following:

- selecting our independent registered public accounting firm and reviewing the professional services they provide;
- reviewing the scope of the audit performed by the independent registered public accounting firm;
- overseeing matters related to the internal audit function;
- reviewing the audit report issued by the independent auditor;
- reviewing HEP’s annual and quarterly financial statements;
- reviewing any material comments contained in the auditor’s letters to management;
- reviewing HEP’s internal accounting controls; and
- reviewing the type and extent of any non-audit work to be performed by the independent registered public accounting firm and its compatibility with their continued objectivity and independence.

Each member of the Audit Committee has the ability to read and understand fundamental financial statements. The Board has determined that Messrs. Pinkerton and Ridenour meet the requirements of an “audit committee financial expert” as defined by the rules of the SEC.

Conflicts Committee

The functions of the Conflicts Committee include reviewing specific matters that the Board or the Conflicts Committee believes may involve conflicts of interest with HFC. The Conflicts Committee determines if the resolution of the conflict of interest is fair and reasonable to HEP. Any matters approved by the Conflicts Committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our general partner of any duties it may owe us or our unitholders.

Compensation Committee

The functions of the Compensation Committee include:

- reviewing, evaluating and approving the agreements, plans, policies and programs of HLS and HEP;
- discharging the Board’s responsibilities relating to compensation of HLS’s officers and directors;
- overseeing the preparation of the Compensation Discussion and Analysis to be included in the Annual Report and preparing the Compensation Committee Report to be included in the Annual Report; and
- administering HEP’s equity plan and HLS’s annual incentive plan.

The Compensation Committee has appointed a subcommittee comprised of four directors, Messrs. Darling, Gray, Stengel and Townsend, all of whom are “independent” as defined by the New York Stock Exchange listing standards, for purposes of approving equity awards, including performance goals applicable to such awards, if applicable, and

any other matters that are within the responsibilities of the Compensation Committee requiring approval solely by independent members of the Board. During 2014, the subcommittee of the Compensation Committee held four meetings.

The Compensation Committee has engaged Frederic W. Cook & Co. (the “Compensation Consultant” or “FWC”), an executive compensation consulting firm, to advise it regarding the compensation of HLS’s officers and directors. In selecting FWC as its independent compensation consultant, the Compensation Committee assessed the independence of FWC pursuant to SEC rules and considered, among other things, whether FWC provides any other services to HLS or us, the fees paid by us to FWC as a percentage of FWC’s total revenues, the policies of FWC that are designed to prevent any conflict of interest between FWC, the Compensation Committee, HLS and us, any personal or business relationship between FWC and a member of the Compensation Committee or one of HLS’s executive officers and whether FWC owned any of our common units. In addition to the foregoing,

the Compensation Committee received an independence letter from FWC, as well as other documentation addressing the firm's independence. FWC reports exclusively to the Compensation Committee and does not provide any additional services to HLS or us. The Compensation Committee has discussed these considerations and has concluded that FWC is independent and that neither we nor HLS have any conflicts of interest with FWC.

Executive Committee

The Executive Committee has such authority as the Board may delegate to it from time to time.

Report of the Audit Committee for the Year Ended December 31, 2014

Management of Holly Logistic Services, L.L.C. is responsible for Holly Energy Partners, L.P.'s system of internal controls over financial reporting. The Audit Committee selected, and the Board approved, the selection of, Ernst & Young LLP as Holly Energy Partners, L.P.'s independent registered public accounting firm to audit the books, records and accounts of Holly Energy Partners, L.P. for the year ended December 31, 2014. Ernst & Young LLP is responsible for performing an independent audit of Holly Energy Partners, L.P.'s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and to issue a report thereon. The Audit Committee also is responsible for selecting, engaging and overseeing the work of the independent registered public accounting firm, which reports directly to the Audit Committee, and evaluating its qualifications and performance. Among other things, to fulfill its responsibilities, the Audit Committee:

- reviewed and discussed Holly Energy Partners, L.P.'s quarterly unaudited consolidated financial statements and its audited annual consolidated financial statements for the year ended December 31, 2014 with management and Ernst & Young LLP, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements, including those in management's discussion and analysis thereof;

- discussed with Ernst & Young LLP the matters required to be discussed by Auditing Standards No. 16, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board;

- discussed with Ernst & Young LLP matters relating to its independence and received the written disclosures and letter from Ernst & Young required by applicable requirements of PCAOB regarding the independent accountant's communications with the Audit Committee concerning the firm's independence;

- discussed with Holly Energy Partners, L.P.'s internal auditors and Ernst & Young LLP the overall scope and plans for their respective audits (the Audit Committee meets with the internal auditors and Ernst & Young LLP, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of Holly Energy Partners, L.P.'s financial reporting); and

- considered whether Ernst & Young LLP's provision of non-audit services to Holly Energy Partners, L.P. is compatible with the auditor's independence

The Audit Committee charter requires the Audit Committee to approve in advance all audit and non-audit services to be provided by our independent registered public accounting firm. All fees for audit, audit-related and tax services as well as all other fees presented under Item 14 "Principal Accountant Fees and Services" were approved by the Audit Committee in accordance with its charter.

Based on the foregoing review and discussions and such other matters the Audit Committee deemed relevant and appropriate, the Audit Committee recommended to the Board that the audited consolidated financial statements of Holly Energy Partners, L.P. for the year ended December 31, 2014 be included in Holly Energy Partners, L.P.'s

Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the SEC.

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

Director Compensation

The Compensation Committee annually evaluates the compensation program for members of the Board who are not officers or employees of HLS or HFC ("non-employee directors"). In 2014, based on a recommendation from the Compensation Committee, the Board approved changes to the non-employee director compensation program, effective August 1, 2014. The components of non-employee director compensation prior to and after August 1, 2014 are described below. Directors who also serve as officers or employees of HLS or HFC do not receive additional compensation for serving on the Board.

	Effective Prior to August 1, 2014	Effective August 1, 2014
Annual cash retainer (payable in four quarterly installments)	$50,000	$60,000
Board meeting or committee meeting attended in person (also paid to non-members of committees who are invited to attend by such committee's chairman) (1)	$1,500	$1,500
Telephonic special board or committee meeting (2)	$1,000	$1,000
Each attended strategy meeting with HLS management	$1,500	$1,500
Annual equity retainer of restricted units under the Long-Term Incentive Plan	$75,000	$75,000
Special cash retainer for chairmen of committees and subcommittees (payable in four quarterly installments) (3)	$10,000	$10,000

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(1) Upon submission of appropriate documentation, non-employee directors also are reimbursed for reasonable out-of-pocket expenses incurred in connection with attending Board or committee meetings.

(2) Prior to August 1, 2014, non-employee directors received $1,000 for telephonic special meetings that lasted over 30 minutes, and the Chairman of the Board and the chairman of each committee had authority to exercise his discretion as to whether the topics discussed at a telephonic special meeting of the Board or committee, as applicable, that lasted 30 minutes or less warranted a fee of $1,000. Effective August 1, 2014, non-employee directors receive $1,000 for all telephonic special meetings regardless of the length of the meeting.

(3) In connection with his retirement from HLS, the Compensation Committee approved a special retainer for Mr. Clifton for 2014, which is described in greater detail in footnote (2) to the Director Compensation Table below.

Annual Equity Awards

Non-employee directors receive an annual equity award grant under the Holly Energy Partners, L.P. Amended and Restated Long-Term Incentive Plan ("Long-Term Incentive Plan") in the form of restricted units having a fair market value of $75,000 on the date of grant, with the number of restricted units rounded up to the nearest whole unit in the case of fractional units. The fair market value of the grant is calculated based on the closing price of our common units on the day of grant (or the last business day prior to the date of grant if the date of grant occurs on a Saturday or Sunday). Continued service on the Board through the stated vesting date, which in most cases is approximately one year following the date of grant, is required in order for the restricted units to vest. Vesting of all unvested units will accelerate upon a change in control of HFC, HLS, HEP or HEP Logistics. In addition, vesting of unvested units will accelerate on a pro-rata basis upon the director's death, total and permanent disability or retirement. Directors are entitled to receive all distributions paid with respect to outstanding restricted units. The distributions are not subject to forfeiture. The directors also have a right to vote with respect to the restricted units.

At its regularly scheduled third quarter meeting in 2014, the Compensation Committee decided to change the timing of the annual equity award grants for non-employee directors. Specifically, the Compensation Committee determined that (a) annual restricted unit grants beginning in 2015 and later years will be made in the fourth quarter of each year, rather than in the third quarter of each year, and (b) annual restricted unit grants will vest on December 1 of the year following the year in which the grant is made, rather than on August 1 of that year, so that continued service on the Board for a full year following the date of grant of the award is required in order for the restricted units to become vested. As a result, for 2014 only, the non-employee directors received an annual equity award grant on August 1, 2014 in the form of restricted units having a fair market value of $100,000 on the date of grant (instead of the typical $75,000), which will vest in full on December 1, 2015, subject to continued service on the Board through that date. The additional $25,000 compensates the non-employee directors for the extended restricted period for the 2014 grant beyond the typical one-year period. The next annual equity award grant to the non-employee directors is scheduled to be made in the fourth quarter of 2015.

Non-Qualified Deferred Compensation

Non-employee directors are eligible to participate in the HollyFrontier Corporation Executive Nonqualified Deferred Compensation Plan, which is not tax-qualified under Section 401 of the Internal Revenue Code and allows participants to defer receipt of certain compensation (the “NQDC Plan”). The NQDC Plan allows non-employee directors the ability to defer up to 100% of their cash retainers and meeting fees for a calendar year. Participating directors have full discretion over how their contributions to the NQDC Plan are invested among the offered investment options. Earnings on amounts contributed to the NQDC Plan are calculated in the same manner and at the same rate as earnings on actual investments. Neither HLS nor HFC subsidizes a participant’s earnings under the NQDC Plan.

Mr. Pinkerton was the only non-employee director that participated in the NQDC Plan in 2014. During 2014, no above market or preferential earnings were paid to Mr. Pinkerton under the NQDC Plan and, therefore, none of the earnings received by Mr. Pinkerton during 2014 are included in the Director Compensation Table below. For additional information on the NQDC Plan, see “Compensation Discussion and Analysis-Overview of 2014 Executive Compensation Components and Decisions-Retirement and Benefit Plans-Deferred Compensation Plan” and the narrative preceding the “Nonqualified Deferred Compensation Table.”

Unit Ownership and Retention Policy for Directors

Effective October 2013, our directors became subject to a new unit ownership and retention policy. Pursuant to the policy, each director is required to hold during service on the Board common units equal in value to at least two times the annual equity retainer paid to non-employee directors. For 2014, each non-employee director was required to hold common units equal in value to $200,000. Each subject director is required to meet the applicable requirements within five years of first being subject to the policy. Mr. Clifton first became subject to the director unit ownership and retention policy upon his appointment as Chairman of the Board in a non-employee capacity, effective February 28, 2014.

Directors are also required to continuously own sufficient units to meet the unit ownership and retention requirements once attained. Until directors meet the requirements, they will be required to hold 25% of the units received from any equity award. If a director attains compliance with the policy and subsequently falls below the requirement because of a decrease in the price of our common units, the director will be deemed in compliance provided that the director retains the units then held.

As of December 31, 2014, all of our directors were in compliance with the unit ownership and retention policy.

Anti-Hedging and Anti-Pledging Policy

Members of the Board are subject to the HEP Insider Trading Policy, which, among other things, prohibits such directors from entering into short sales or hedging or pledging our common units and HFC common stock.

Director Compensation Table

The table below sets forth the compensation earned in 2014 by each of the non-employee directors of HLS:

Name (1)	Fees Earned or Paid in Cash (2)	Unit Awards (3)	All Other Compensation	Total
Matthew P. Clifton (4)	$154,494	$100,033	$ 69,637 (5)	$324,164
Charles M. Darling, IV	99,167	100,033	—	199,200

William J. Gray	86,167	100,033	32,231 (6)	218,431
Jerry W. Pinkerton	94,667	100,033	—	194,700
P. Dean Ridenour	77,167	100,033	—	177,200
William P. Stengel	96,167	100,033	—	196,200
James G. Townsend	80,167	100,033	—	180,200

(1) Mr. Jennings is not included in this table because he received no additional compensation for his service on the Board since, during 2014, Mr. Jennings was also an officer of HFC and HLS. The compensation paid by HFC to Mr. Jennings in 2014 will be shown in HFC's 2015 Proxy Statement. A portion of the compensation paid to Mr. Jennings by HFC is allocated to the services he performs for us in his capacity as an officer of HLS and is disclosed in the "Summary Compensation Table" below.

(2) For Mr. Clifton, includes a special retainer paid to him in 2014 of $125,000, less the amount of salary paid to him from January 1, 2014 until February 27, 2014, which salary amount is included in the "All Other Compensation" column of this table.

(3) Reflects the aggregate grant date fair value of restricted units granted to the non-employee directors on August 1, 2014, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("FASB ASC Topic 718"), determined without regard to forfeitures. See Note 6 to our consolidated financial statements for the fiscal year ended December 31, 2014, for a discussion of the assumptions used in determining the FASB ASC Topic 718 grant date fair value of these awards.

On August 1, 2014, each of the non-employee directors received an award of 2,995 restricted units that vest on December 1, 2015, subject to continued service on the Board. As of December 31, 2014, these are the only restricted units held by our non-employee directors. Mr. Clifton also holds 48,948 performance units (assuming a maximum payout level of 200% at the time of vesting), which were granted to him while he served as Executive Chairman of HLS. For additional information regarding the annual restricted unit grants made on August 1, 2014 and certain changes to our annual equity award grant process for non-employee directors, please see "Annual Equity Retainer Awards" above.

(4) From January 1, 2014 until February 27, 2014, Mr. Clifton served as Executive Chairman of HLS. Effective February 28, 2014, Mr. Clifton retired from employment and was appointed Chairman of the Board in a non-employee capacity.

(5) During the period he served as Executive Chairman in 2014, Mr. Clifton received base salary payments for service as an employee. In addition, during that same period, the Compensation Committee approved cash payments to Mr. Clifton, as additional regular earnings, equal to amounts he would have received for service on the Board if he were a non-employee director. Thus, the amount reported in the "All Other Compensation" column represents (a) $27,404 earned by Mr. Clifton as salary in 2014 prior to his retirement on February 28, 2014, and (b) $15,500 earned as additional regular earnings for amounts he would have received for service on the Board if he were a non-employee director during the period from January 1, 2014 through February 27, 2014. In addition, the amount reported in the "All Other Compensation" column represents $26,733 in fees for consulting services provided by Mr. Clifton to HFC during 2014. None of the consulting fees were paid by us.

(6) Represents fees for consulting services provided by Mr. Gray to HFC during 2014. None of the consulting fees were paid by us.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires directors, executive officers and persons who beneficially own more than 10% of HEP's units to file certain reports with the SEC and New York Stock Exchange concerning their beneficial ownership of HEP's equity securities. Based on a review of these reports, other information available to us and written representations from reporting persons indicating that no other reports were required, all such reports concerning beneficial ownership were filed in a timely manner by reporting persons during the year ended December 31, 2014.

Item 11. Executive Compensation

Compensation Discussion and Analysis

This compensation discussion and analysis provides information about our compensation objectives and policies for the HLS executive officers who are our “Named Executive Officers” for 2014, to the extent the Compensation Committee of the Board (the “Compensation Committee”) determines the compensation of these individuals or such compensation is allocated to us pursuant to SEC rules. In addition, the compensation discussion and analysis is intended to place in perspective the information contained in the executive compensation tables that follow this discussion. Additionally, we describe our policies relating to reimbursement to HFC and HLS for compensation expenses.

Overview

We are managed by HLS, the general partner of HEP Logistics, our general partner. HLS is a subsidiary of HFC. The employees providing services to us are provided by HLS, which utilizes people employed by HFC to perform services for us, as we do not have any employees. As of December 31, 2014, HLS utilized 273 people employed by HFC to provide general, administrative and operational services to us.

For 2014, the HLS executive officers who were our "Named Executive Officers" are as follows:

Name	Position with HLS
Michael C. Jennings	Chief Executive Officer
Douglas S. Aron	Executive Vice President and Chief Financial Officer
Bruce R. Shaw	President
Mark T. Cunningham	Senior Vice President, Operations
Denise C. McWatters	Senior Vice President, General Counsel and Secretary

Certain executive officers of HLS are also officers of HFC or provide services to HFC. During 2014, Messrs. Shaw and Cunningham spent all of their professional time managing our business and affairs. Messrs. Jennings and Aron and Ms. McWatters also served as executive officers of HFC and devoted as much of their professional time as was necessary to oversee the management of our business and affairs.

Under the terms of the Omnibus Agreement, we pay an annual administrative fee to HFC ($2.3 million in 2014 and $2.4 million as of January 1, 2015) for the provision of general and administrative services for our benefit, which may be increased or decreased as permitted under the Omnibus Agreement. The administrative services covered by the Omnibus Agreement include, without limitation, the costs of corporate services provided to us by HFC such as accounting, tax, information technology, human resources, in-house legal support and outside legal support for general corporate and tax matters; and office space, furnishings and equipment. None of the services covered by the administrative fee is assigned any particular value individually. Although certain Named Executive Officers provide services to both HFC and us, no portion of the administrative fee is specifically allocated to services provided by the Named Executive Officers to us. Rather, the administrative fee generally covers services provided to us by HFC and, except as described below, there is no reimbursement by us for the specific costs of such services. See Item 13, "Certain Relationships and Related Transactions, and Director Independence" of this Annual Report on Form 10-K for additional discussion of our relationships and transactions with HFC.

Under the Omnibus Agreement, we also reimburse HFC for certain expenses incurred on our behalf, such as for salaries and employee benefits for certain personnel employed by HFC who perform services for us on behalf of HLS, as described in greater detail below. The partnership agreement provides that our general partner will determine the expenses that are allocable to us. With respect to equity compensation paid by us to the Named Executive Officers, HLS purchases the units delivered pursuant to awards under our Long-Term Incentive Plan, and we reimburse HLS for the purchase price of the units.

In 2014, compensation decisions for Messrs. Shaw and Cunningham were made by the Compensation Committee, and we reimbursed HFC for 100% of the compensation expenses incurred by HFC for salary, bonus, retirement and other benefits provided to them. For the same period, we also reimbursed HLS for 100% of the expenses incurred in providing Messrs. Shaw and Cunningham with awards under our Long-Term Incentive Plan. All compensation provided to Messrs. Shaw and Cunningham for 2014 is discussed and reported, in accordance with SEC rules, in the narratives and tables that follow.

At its January 24, 2012 meeting, the Compensation Committee determined that, beginning in 2012, the executive officers of HLS that also served as executive officers of HFC, including Messrs. Jennings and Aron and Ms. McWatters, would no longer receive awards of equity-based compensation under the Long-Term Incentive Plan for the services provided to us. Instead, all compensation paid to such executive officers beginning in 2012 was paid and determined by HFC, without input from the Compensation Committee.

The compensation for the services performed for us by Messrs. Jennings and Aron and Ms. McWatters is covered by the administrative fee under the Omnibus Agreement (and therefore not subject to reimbursement by us); however, in accordance with SEC rules, for purposes of these disclosures, a portion of the compensation paid by HFC to Messrs. Jennings and Aron and Ms. McWatters for 2014 is allocated to the services they performed for us during 2014. The allocation was made based on the assumption that Mr. Jennings spent, in the aggregate, approximately 15% of his professional time in 2014 on our business and affairs; Mr. Aron spent, in the aggregate, approximately 20% of his professional time in 2014 on our business and affairs; and Ms. McWatters

spent, in the aggregate, approximately 30% of her professional time in 2014 on our business and affairs. As a result, only 15% of the total amount of compensation Mr. Jennings received from HFC for 2014, only 20% of the total amount of compensation Mr. Aron received from HFC for 2014 and only 30% of the total amount of compensation Ms. McWatters received from HFC for 2014 is disclosed in the tables that follow. Because HFC made all decisions regarding the compensation paid to Messrs. Jennings and Aron and Ms. McWatters, those decisions are not discussed in this compensation discussion and analysis. The total compensation paid by HFC to Messrs. Jennings and Aron and Ms. McWatters in 2014 will be disclosed in HFC's 2015 Proxy Statement.

The Compensation Committee does not review or approve pension or retirement benefits for any of the Named Executive Officers. Rather, all pension and retirement benefits provided to the executives are the same pension and retirement benefits that are provided to employees of HFC generally, and such benefits are sponsored and administered entirely by HFC without input from HLS or the Compensation Committee. The pension and retirement benefits provided to Messrs. Shaw and Cunningham are described below and are charged to us monthly in accordance with the Omnibus Agreement.

Objectives of Compensation Program

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

In supporting our objectives, the Compensation Committee balances the use of cash and equity compensation in the total direct compensation package provided to Messrs. Shaw and Cunningham; however, the Compensation Committee has not adopted any formal policies for allocating their compensation among salary, bonus and long-term equity compensation.

In the fourth quarter of 2013, the Compensation Committee, with the assistance of the Chief Executive Officer, reviewed the mix and level of cash and long-term equity incentive compensation for Messrs. Shaw and Cunningham with a goal of providing competitive compensation to retain them, while at the same time providing them incentives to maximize long-term value for us and our unitholders. After reviewing internal evaluations, input by management, and market data provided by the Compensation Consultant, the Compensation Committee believes that the 2014 compensation paid to Messrs. Shaw and Cunningham reflects an appropriate allocation of compensation between salary, bonus and equity compensation.

Role of the Compensation Consultant and the Compensation Committee in the Compensation Setting Process

The Compensation Committee has engaged Frederic W. Cook & Co. (the "Compensation Consultant" or "FWC"), a consulting firm specializing in executive compensation, to advise the Compensation Committee on matters related to executive and non-employee director compensation and long-term equity incentive awards. The Compensation Consultant provides the Compensation Committee with relevant market data, updates on related trends and developments, advice on program design, and input on compensation decisions for executive officers and non-employee directors. As discussed above under "-The Board, Its Committees and Director Compensation-Board Committees-Compensation Committee," the Compensation Committee has concluded that we do not have any conflicts of interest with FWC.

The Compensation Consultant does not have authority to determine the ultimate compensation paid to executive officers or non-employee directors, and the Compensation Committee is under no obligation to utilize the information provided by the Compensation Consultant when making compensation decisions. The Compensation Consultant provides external context and other input to the Compensation Committee prior to the Compensation Committee

approving salaries and fees, awarding bonuses and equity compensation or establishing awards for the upcoming year.

Review of Market Data

Market pay levels are one of many factors considered by the Compensation Committee in setting compensation for the Named Executive Officers. The Compensation Committee regularly reviews comparison data provided by the Compensation Consultant with respect to salary, annual incentive levels and long-term incentive levels as one point of reference in evaluating the reasonableness and competitiveness of the compensation paid to our executive officers as compared to companies with which we compete for executive talent. In addition, the Compensation Committee reviews such data to evaluate whether our compensation reflects practices of comparable companies of generally similar size and scope of operations. The Compensation Consultant obtains market information from various sources, including published compensation surveys (such as the Liquid Pipeline Roundtable Compensation Survey) and SEC filings of publicly traded companies that the Compensation Consultant and the Compensation Committee consider appropriate peer group companies. The purpose of the peer group is to provide a frame of reference with respect to executive compensation at companies of generally comparable size and scope of operations, rather than

to set specific benchmarks for the compensation provided to the Named Executive Officers. We select peer group companies that we believe provide relevant data points for our consideration.

The peer group used in determining 2014 compensation included the following publicly traded master limited partnerships, which are representative of the companies with which we compete for executives:

Atlas Pipeline Partners, L.P.	NuStar Energy L.P.
Crosstex Energy, L.P.	PAA Natural Gas Storage, L.P.
DCP Midstream Partners L.P.	PVR Partners, L.P.
Eagle Rock Energy Partners, L.P.	Regency Energy Partners, L.P.
Genesis Energy, L.P.	Summit Midstream Partners, L.P.
Crestwood Equity Partners LP (formerly known as Inergy L.P.)	Targa Resources Partners, L.P.

The peer group used in 2014 was changed from the peer group used in 2013 due to the initial public offerings of more similarly situated publicly traded master limited partnerships and merger and acquisition activity.

Our objective generally is to position pay at levels approximately in the middle range of market practice, taking into account median levels derived from our peer group analysis. Following advice from the Compensation Consultant, we consider our salary and non-salary compensation components relative to the median compensation levels generally within the peer group rather than to an exact percentile above or below the median. If compensation is generally within plus or minus 20% of the market median, it is considered to be in the middle range of the market.

In 2014, the total direct compensation paid to Messrs. Shaw and Cunningham was generally in the middle range of the market. As noted, however, this market analysis is just one of many factors considered when making overall compensation decisions for our executives.

Role of Named Executive Officers in Determining Executive Compensation

In making executive compensation decisions, the Compensation Committee reviewed the total compensation provided to each executive in the prior year, the executive’s overall performance and market data provided by the Compensation Consultant. The Compensation Committee also considered recommendations by the Chief Executive Officer and other factors in determining the appropriate final compensation amounts.

Various members of management facilitate the Compensation Committee’s consideration of compensation for Named Executive Officers by providing data for the Compensation Committee’s review. This data includes, but is not limited to, performance evaluations, performance-based compensation provided to the Named Executive Officers in previous years, tax-related considerations and accounting-related considerations. Management provides the Compensation Committee with guidance as to how such data impacts performance goals set by the Compensation Committee during the previous year. Given the day-to-day familiarity that management has with the work performed, the Compensation Committee values management’s recommendations, although no Named Executive Officer has authority to determine or comment on compensation decisions directly related to himself. The Compensation Committee makes the final decision as to the compensation of the Named Executive Officers (other than Messrs. Jennings and Aron and Ms. McWatters).

Overview of 2014 Executive Compensation Components and Decisions

In 2014, compensation decisions for Messrs. Shaw and Cunningham were made by the Compensation Committee. The components of compensation actually received by Messrs. Shaw and Cunningham in 2014 are as follows:

- base salary;
- annual incentive cash bonus compensation;
- long-term equity incentive compensation;
- severance and change in control benefits;
- health and retirement benefits; and
- perquisites.

Each of these components is described in further detail in the narrative that follows.

Base Salary

In the fourth quarter of 2013, the Compensation Committee conducted its annual review of base salaries for Messrs. Shaw and Cunningham and considered each of their respective positions, level of responsibility and performance in 2013. The Compensation Committee also reviewed competitive market data relevant to each individual's position provided by the Compensation Consultant. Following a review of the various factors listed above, the Compensation Committee determined that an increase in each of Messrs. Shaw and Cunningham's base salary was warranted for 2014. The following table sets forth the 2014 base salaries for Messrs. Shaw and Cunningham:

Name	2013 Base Salary	2014 Base Salary (1)	Percentage Increase from 2013
Bruce R. Shaw	$450,000	$468,000	4%
Mark T. Cunningham	$270,000	$278,100	3%

(1) Represents salaries effective January 1, 2014.

Annual Incentive Cash Bonus Compensation

The Board adopted the HLS Annual Incentive Plan (the "Annual Incentive Plan") in August 2004 to motivate eligible employees to produce outstanding results, encourage superior performance, increase productivity, contribute to health and safety goals, and aid in attracting and retaining key employees. The Compensation Committee oversees the administration of the Annual Incentive Plan, and any potential awards granted pursuant to the plan are subject to final determination by the Compensation Committee of achievement of the performance metrics for the applicable performance periods.

In the fourth quarter of 2013, the Compensation Committee approved target awards under the Annual Incentive Plan for 2014 and determined that the applicable performance period for the Annual Incentive Plan awards would be the 12-month period beginning October 1, 2013 and ending September 30, 2014, with determination and payment of the cash bonus amounts occurring in the fourth quarter of 2014.

The 2014 Annual Incentive Plan awards were subject to achievement of the following metrics:

- Actual Distributable Cash Flow vs. Budget: Half of the award is equal to a pre-established percentage of the employee's base salary and is earned based upon our actual distributable cash flow during the performance period compared to the budgeted distributable cash flow for the performance period, adjusted for differences in estimated and actual Producers Price Index adjustments and differences in the timing of known acquisitions.

The payout on this metric is based on the following:

Actual Distributable Cash Flow vs. Budget	Bonus Achievement (1)
Less than 100%	Actual Distributable Cash Flow as Percentage of Budget
100%	100%
Greater than 100%	100% plus 3% for each 1% Actual Distributable Cash Flow exceeds Budget

(1) The percentages are interpolated between percentage points and rounded to the nearest hundredth percent.

The performance metric of distributable cash flow is used because it is a widely accepted financial indicator for comparing partnership performance. We believe that this measure provides an enhanced perspective of the operating performance of our assets and the cash our business is generating, and is therefore a useful criterion in evaluating management's performance and in linking the payout of the award to our performance.

- Individual Performance: The other half of the award is equal to a pre-established percentage of the employee's base salary and is earned based on the employee's individual performance during the performance period, as determined in the discretion of the employee's immediate supervisor. The employee's individual performance is evaluated through a performance review by the employee's immediate supervisor, which includes a written assessment. The assessment reviews several criteria, including how well the employee performed his or her pre-established individual goals during the performance period and the employee's interpersonal effectiveness, integrity, and business conduct.

In addition to the pre-defined performance metrics described above, the Compensation Committee has discretion to approve an increase or a decrease in the executive officer's bonus. Increases and decreases are determined using the same factors used to establish bonuses, and poor results on the indicated factors could, in the discretion of the Compensation Committee, result in a decrease in a bonus. The Compensation Committee may also consider other factors, including environmental, health and safety and conditions outside the control of the executive that could have affected the performance metrics. If the Compensation Committee believes additional compensation is warranted to reward an executive for outstanding performance, the Compensation Committee may increase the executive's bonus amount in its discretion. In making the determination as to whether such discretion should be applied (either to decrease or increase a bonus), the Compensation Committee reviews recommendations from management.

The following table sets forth the target and maximum award opportunities (as a percentage of annual base salary) for Messrs. Shaw and Cunningham for 2014, and the portion of their target award opportunity allocated to each performance metric. The award opportunity amounts and allocations were not changed from 2013.

	Allocation Between Performance Metrics		Award Opportunities	
Name	Actual vs. Budgeted DCF	Individual	Target	Maximum
Bruce R. Shaw	27.5%	27.5%	55.0%	110.0%
Mark T. Cunningham	20.0%	20.0%	40.0%	80.0%

Following the end of the performance period, the Chief Executive Officer evaluates the extent to which the applicable performance metrics have been achieved and recommends a bonus amount for each executive officer to the Compensation Committee. The Compensation Committee then determines the actual amount of the bonus award earned by and payable to each executive officer. Pursuant to our Annual Incentive Plan, the Compensation Committee determines actual achievement of each performance metric individually and the percentages determined with respect to the two performance metrics are then added together and multiplied by the individual's base salary to calculate the bonus amount.

For the 2014 performance period, the actual distributable cash flow ($165.15 million) exceeded the budgeted distributable cash flow ($160.05 million) by 3.19%. As a result, the payout on this metric was approximately 109.56%. The following table sets forth the actual payouts to Messrs. Shaw and Cunningham for 2014 as a percentage of base salary, including payments made based on actual distributable cash flow versus budget and discretionary bonuses awarded for individual performance.

Name	Actual vs. Budgeted DCF	Individual	Total
Bruce R. Shaw	30.1%	26.1%	56.2%
Mark T. Cunningham	21.9%	23.7%	45.6%

In addition, for 2014, we awarded special one-time discretionary bonuses to Messrs. Shaw and Cunningham to recognize their contributions to us during the year in the amount of $10,680 and $7,992, respectively. Specifically, a special discretionary bonus was awarded to Mr. Shaw due to his understanding of our business, his credibility and approach with our employees and his overall commitment to the organization, and a special discretionary bonus was awarded to Mr. Cunningham for his efforts and contributions to us in 2014.

Long-Term Equity Incentive Compensation

The Long-Term Incentive Plan was adopted by the Board in August 2004 with the objective of promoting our interests by providing equity incentive compensation awards to eligible individuals. The Long-Term Incentive Plan also is intended to enhance our ability to attract and retain the services of individuals who are essential for our growth and profitability, to encourage those individuals to devote their best efforts to advancing our business, and to align the interests of those individuals with the interests of our unitholders. The Long-Term Incentive Plan was most recently amended and restated effective February 10, 2012.

The Long-Term Incentive Plan provides for the granting of the following awards: unit options, unit appreciation rights, restricted units, phantom units, unit awards and substitute awards. The Compensation Committee may approve grants of awards on terms that it determines appropriate, including the period during and the conditions on which the award will vest. Since our inception, we have granted only awards of restricted units, phantom units with time based vesting, fully vested unit awards, and phantom units with performance vesting (referred to as "performance units").

The Compensation Committee typically grants long-term equity incentive awards to the Named Executive Officers (other than the Named Executive Officers who are also executive officers of HFC) on an annual basis. In determining the appropriate amount and type of long-term equity incentive awards to be granted to the Named Executive Officers each year, the Compensation Committee considers the executive's position, scope of responsibility, base salary and available compensation information for executives in comparable positions in similar companies. Our goal is to reward the creation of value and strong performance with variable compensation dependent on that performance. For the 2014 year, the Compensation Committee awarded both restricted units and performance units to Messrs. Shaw and Cunningham. Any equity compensation awards granted by HFC to Messrs. Jennings and Aron and Ms. McWatters for the 2014 year will be disclosed in HFC's 2015 Proxy Statement.

Historically, annual long-term equity incentive awards were granted during the first quarter of each year. In the fourth quarter of 2013, the Compensation Committee decided to make certain changes to its long-term equity incentive award grant process, including changes to the timing of annual grants for each year. Specifically, the Compensation Committee determined that annual grants of long-term equity incentive awards for 2014 and later years will be made in the fourth quarter of the year preceding the year to which the award relates, in order to align the timing of the long-term equity incentive award grants with the timing of the other compensation decisions made for our executive officers. Pursuant to SEC rules, the long-term equity incentive awards granted in November 2013 for the 2014 year are disclosed as 2013 compensation in the Summary Compensation Table (with respect to those Named Executive Officers who received long-term equity incentive awards from us in November 2013) and are not included in the 2014 Grants of Plan-Based Awards table below; however, because these awards relate to the 2014 year, they are described in greater detail below.

Restricted Unit Awards

A restricted unit award is an award of common units that are subject to a risk of forfeiture. In November 2013, Messrs. Shaw and Cunningham were the only current executive officers who were granted restricted units. The number of restricted units awarded is initially approved by the Compensation Committee in dollar amounts established according to the pay grade of the executive officer. The award is then converted to a number of units by dividing the targeted dollar amount by the closing price of our common units on the grant date of the award. The following table sets forth the number of restricted units awarded to each of them in November 2013 for the 2014 year:

Name	Number of Restricted Units
Bruce R. Shaw	10,692
Mark T. Cunningham	6,786

Restricted unitholders have all the rights of a unitholder with respect to the restricted units, including the right to receive all distributions paid with respect to such restricted units (at the same rate as distributions paid on our common 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. The distributions are not subject to forfeiture.

The restricted units granted in November 2013 to Messrs. Shaw and Cunningham vest in three equal annual installments as noted in the following table and will be fully vested and nonforfeitable after December 15, 2016.

Restricted Unit Vesting Criteria

Vesting Date (1)	Cumulative Amount of Restricted Units Vested
Immediately following December 15, 2014	1/3
Immediately following December 15, 2015	2/3
Immediately following December 15, 2016	All

(1) Vesting will occur on the first business day following December 15 if December 15 falls on a Saturday or a Sunday. The provisions affecting the vesting of these awards upon a change in control or certain terminations of employment are described in greater detail below in the section titled "Potential Payments upon Termination and Change in Control."

Performance Unit Awards

A performance unit is a notational phantom unit subject to certain performance conditions that entitles the grantee to receive a common unit upon the vesting of the unit. Performance units are generally settled only upon the attainment of pre-established performance targets, which may include the achievement of specified financial objectives determined by the Compensation Committee. The Compensation Committee also approves the period over which the performance targets must be attained in order for performance units to vest. In November 2013, Messrs. Shaw and Cunningham were the only executive officers who were granted performance units. The performance period for the November 2013 awards began on January 1, 2014 and ends on December 31, 2016. An executive officer generally must remain employed through the end of the performance period in order to be eligible to earn any of the performance units. The provisions affecting the vesting of these awards upon a change in control or certain terminations of employment are described in greater detail below in the section titled "Potential Payments upon Termination and Change in Control."

With respect to the performance unit awards for the 2014 year, Messrs. Shaw and Cunningham were each granted a target number of performance units. The target number is initially approved by the Compensation Committee in dollar amounts established according to the pay grade of the executive officer. The target award is then converted to a number of units by dividing the targeted dollar amount by the closing price of our common units on the grant date of the award. The following table sets forth the target number of performance units granted to Messrs. Shaw and Cunningham in November 2013 for the 2014 year:

Name	Target Number of Performance Units
Bruce R. Shaw	10,692
Mark T. Cunningham	2,262

The Compensation Committee determined that the increase in distributable cash flow per common unit during the performance period should be used as the performance objective for the performance unit awards granted in November 2013. The actual number of units earned at the end of the performance period is based on the "Achieved Distributable Cash Flow/Unit" as compared to the "Base Distributable Cash Flow/Unit," "Target Distributable Cash Flow/Unit" and "Incentive Distributable Cash Flow/Unit." Specifically, the actual number of units earned at the end of the performance period will be determined by multiplying the target number of performance units awarded by the performance percentage as follows:

Achieved Distributable Cash Flow/Unit Equals	Performance Percentage (%) (1)
Base Distributable Cash Flow/Unit or Less	50%
Target Distributable Cash Flow/Unit	100%
Incentive Distributable Cash Flow/Unit	150%

(1) The percentages above are interpolated between points up to a maximum of 150% but no less than 50%. The result is rounded to the nearest whole percentage, but not to a number in excess of 150%.

For the performance units:

Term	What It Means
Achieved Distributable Cash Flow/Unit	Actual Distributable Cash Flow in 2016 adjusted, on an annualized basis, to the extent such adjustment is not reflected in Actual Distributable Cash Flow in 2016, to include the effect of the closing of any acquisition to income and/or outstanding HEP common units and/or to eliminate any general partner give-back and any other aberrational event, as determined by the Compensation Committee, divided by the number of common units outstanding as of year-end 2016
Base Distributable Cash Flow/Unit	Distributable Cash Flow for 2013 adjusted, on an annualized basis, to include the effect of the closing of any acquisition to income and/or outstanding HEP common units and/or to eliminate any general partner give-back and any other aberrational event, as determined by the Compensation Committee, divided by the number of common units outstanding as of year-end 2013
Target Distributable Cash Flow/Unit	Base Distributable Cash Flow/Unit x (100% + $WAIA_1$) x (100% + $WAIA_2$) x (100% + $WAIA_3$)
Incentive Distributable Cash Flow/Unit	Base Distributable Cash Flow/Unit x (100% + ($WAIA_1$ + 4%)) x (100% + ($WAIA_2$ + 4%)) x (100% + ($WAIA_3$ + 4%))
WAIA	The weighted after inflation adjustment for each of years 1, 2 and 3 of the performance period (identified as $WAIA_1$, $WAIA_2$, and $WAIA_3$, respectively) to HEP’s applicable sources of revenue calculated as follows: annual percentage increase of the Producers Price Index - Commodities-Finished Goods published by the U.S. Department of Labor, Bureau of Labor Statistics plus 1.5% For purposes of calculating Target Distributable Cash Flow/Unit and Incentive Distributable Cash Flow/Unit, the WAIA is rounded to the nearest 0.1%

Prior to vesting, distributions are paid on each outstanding performance unit, based on the target number of performance units subject to the award, at the same rate as distributions paid on our common units. The distributions are not subject to forfeiture.

Acquisition of Common Units for Long-Term Incentive Plan Awards

Common units delivered in connection with long-term equity incentive 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 currently do not hold treasury units. HLS is entitled to reimbursement by us for the cost of acquiring the common units utilized for the grant or settlement of long-term equity incentive awards.

Retirement and Other Benefits

Our Named Executive Officers participate in certain retirement plans sponsored and maintained by HFC. The cost of retirement benefits for the Named Executive Officers who are not also executive officers of HFC are charged monthly to us in accordance with the terms of the Omnibus Agreement. The terms of these benefit arrangements are described

below.

Defined Contribution Plan

For 2014, our Named Executive Officers were eligible to participate in the HollyFrontier Corporation 401(k) Retirement Savings Plan, a tax qualified defined contribution plan (the “401(k) Plan”). Employees who are not eligible to participate in the NQDC Plan may contribute amounts between 0% and 75% of their eligible compensation to the 401(k) Plan, while employees who participate in the NQDC Plan may contribute amounts between 0% and 50% of their eligible compensation to the 401(k) Plan. Employee contributions that were made on a tax-deferred basis were generally limited to $17,500 for 2014, with employees 50 years of age or over able to make additional tax-deferred contributions of $5,500.

For 2014, all employees received an employer retirement contribution to the 401(k) Plan of 3% to 8% of the participating employee’s eligible compensation under the 401(k) Plan, subject to applicable Internal Revenue Code limitations, based on years of service, as follows:

Years of Service	Retirement Contribution (as percentage of eligible compensation)
Less than 5 years	3%
5 to 10 years	4%
10 to 15 years	5.25%
15 to 20 years	6.5%
20 years and over	8%

In addition to the retirement contribution, in 2014, employees received employer matching contributions to the 401(k) Plan equal to 100% of the first 6% of the employee's eligible compensation up to compensation limits. Matching contributions vest immediately, and retirement contributions are subject to a three-year cliff-vesting period.

The 401(k) Plan benefits for Messrs. Shaw and Cunningham were charged to us in 2014 pursuant to the Omnibus Agreement.

Deferred Compensation Plan

In 2014, our Named Executive Officers were eligible to participate in the NQDC Plan. The NQDC Plan provides certain management and other highly compensated employees an opportunity to defer compensation in excess of qualified retirement plan limitations on a pre-tax basis and accumulate tax-deferred earnings to achieve their financial goals.

Participants in the NQDC Plan can contribute between 1% and 50% of their eligible earnings, which includes base salary and bonuses, to the NQDC Plan. Participants in the NQDC Plan may also receive certain employer-provided contributions, including matching restoration contributions, retirement restoration contributions, transition benefit contributions (pursuant to the Transition Benefit Plan described below), and nonqualified nonelective contributions. Matching restoration contributions and retirement restoration contributions represent contribution amounts that could not be made under the 401(k) Plan due to Internal Revenue Code limitations on tax-qualified plans. See the narrative preceding the "Nonqualified Deferred Compensation Table" for additional information regarding these contributions and the other terms and conditions of the NQDC Plan.

The NQDC Plan benefits for Messrs. Shaw and Cunningham were charged to us in 2014 pursuant to the Omnibus Agreement.

Retirement Pension Plans and Transition Benefit

HFC traditionally maintained the Holly Retirement Plan, a tax-qualified defined benefit retirement plan (the "Retirement Plan"), and the Holly Retirement Restoration Plan, an unfunded plan that provides additional payments to participating executives whose Retirement Plan benefits were subject to certain Internal Revenue Code limitations (the "Restoration Plan").

Until January 1, 2012, employees hired prior to 2007 and not subject to a collective bargaining agreement, were eligible to participate in the Retirement Plan. Employees participating in the Retirement Plan were also eligible to participate in the 401(k) Plan, but were generally not eligible to receive an employer retirement contribution under the 401(k) Plan for years prior to 2012. As of January 1, 2012, participants in the Retirement Plan and the Restoration Plan who are not subject to a collective bargaining agreement were no longer accruing additional benefits under these plans, and as of May 1, 2012, all participants in these plans ceased accruing additional benefits. The Retirement Plan was liquidated in June 2013.

In connection with the cessation of benefit accruals under the Retirement Plan and the Restoration Plan, HFC adopted a Transition Benefit Plan pursuant to which eligible participants in the Retirement Plan are provided a transition benefit for each of 2012, 2013, and 2014. The amount of the transition benefit for each year is equal to the participant's eligible compensation as of December 31 of that year, multiplied by a transition benefit percentage determined based on the participant's eligible years of service as of January 1, 2012 (in the case of salaried employees). The participant must be employed on the last day of the year (subject to certain exceptions for death or disability) in order to earn a transition benefit for that year. For executive officers, the transition benefit is paid in the form of a transition benefit contribution to the NQDC Plan. For additional information regarding these transition benefit contributions, see the narrative preceding the "Nonqualified Deferred Compensation Plan Table."

Messrs. Shaw and Cunningham were the only Named Executive Officers who participated in the Retirement Plan. Mr. Shaw is the only Named Executive Officer who is a participant in the Restoration Plan. Mr. Shaw's Restoration Plan benefits were charged to us in 2014 pursuant to the Omnibus Agreement.

Other Benefits and Perquisites

Our Named Executive Officers are eligible to participate in the same health and welfare benefit plans, including medical, dental, life insurance, and disability programs sponsored and maintained by HFC, that are generally made available to all full-time employees of HFC. Health and welfare benefits for Messrs. Shaw and Cunningham were charged to us in 2014 pursuant to the Omnibus Agreement.

It is the Compensation Committee's policy to provide only limited perquisites to our Named Executive Officers. For security reasons as a result of our increased size and value, we reimburse Mr. Shaw up to $9,500 per year for any out-of-pocket expenses related to security training, consulting or technology. Mr. Shaw did not elect to utilize the security perquisite in 2014. We also provide reserved parking spaces for Messrs. Shaw and Cunningham.

Change in Control Agreements

As of the date of this Annual Report on Form 10-K, neither we nor HLS has entered into any employment agreements with any of the Named Executive Officers. On February 14, 2011, the Board adopted the Holly Energy Partners, L.P. Change in Control Policy (the "Change in Control Policy") and the related form of Change in Control Agreement for certain officers of HLS (each, a "Change in Control Agreement"). The material terms of, and the quantification of, the potential amounts payable under the Change in Control Agreements currently in effect with certain Named Executive Officers are described below in the section titled "Potential Payments upon Termination or Change in Control." The Change in Control Agreements contain "double-trigger" payment provisions that require not only a change in control of HFC, HLS or HEP, but also a qualifying termination of the executive's employment within a specified period of time following the change in control in order for an officer to be entitled to benefits. We believe the Change in Control Agreements provide for management continuity in the event of a change in control and provide competitive benefits for the recruitment and retention of executives.

We entered to a Change in Control Agreement with Mr. Cunningham, effective as of February 14, 2011, and with Mr. Shaw, effective as of January 1, 2013, in each case, in accordance with the Change in Control Policy. We bear all costs and expenses associated with these agreements.

HFC has entered into Change in Control Agreements with Messrs. Jennings and Aron and Ms. McWatters, which were in effect during 2014 and the costs of which are fully borne by HFC (the "HFC Change in Control Agreements"). Payments and benefits under the HFC Change in Control Agreements are triggered only upon a change in control of HFC. The material terms, and the qualification, of the potential amounts payable under the HFC Change in Control Agreements will be described in HFC's 2015 Proxy Statement.

Unit Ownership and Retention Policy for Executives

The Board, the Compensation Committee and our executive officers recognize that ownership of our common units is an effective means by which to align the interests of our officers with those of our unitholders. In October 2013, the Compensation Committee recommended, and the Board approved, a new unit ownership and retention policy, which increased the retention requirements for Mr. Shaw and subjected Mr. Cunningham to unit retention requirements, in each case equal in value to the following:

Executive Officer	Value of Units
Bruce R. Shaw	2x Base Salary
Mark T. Cunningham	1x Base Salary

Each covered officer is required to meet the applicable requirements within five years of first being subject to the policy. Officers are required to continuously own sufficient units to meet the unit ownership and retention requirements once attained. Until the officers attain compliance with the unit ownership and retention policy, the officers will be required to hold 25% of the units received from any equity award, net of any units used to pay the exercise price or tax withholdings. If an officer attains compliance with the unit ownership and retention policy and subsequently falls below the requirement because of a decrease in the price of our common units, the officer will be deemed in compliance provided that the officer retains the units then held.

As of December 31, 2014, the Named Executive Officers listed above were in compliance with the unit ownership and retention policy.

Anti-Hedging and Anti-Pledging Policy

Our Named Executive Officers are subject to the HEP Insider Trading Policy, which, among other things, prohibits such individuals from entering into short sales or hedging or pledging our common units and HFC common stock.

Tax and Accounting Implications

We account for equity compensation expenses under the rules of FASB ASC Topic 718, which requires us to estimate and record an expense for each award of equity compensation over the vesting period of the award. Accounting rules also require us to record cash compensation as an expense at the time the obligation is accrued. Because we are a partnership, Section 162(m) of the Code does not apply to compensation paid to our Named Executive Officers. Accordingly, the Compensation Committee does not consider its impact in determining compensation levels. The Compensation Committee has taken into account the tax implications to us in its decision to grant long-term equity incentive compensation awards in the form of restricted units and performance units as opposed to options or unit appreciation rights.

Recoupment of Compensation

To date, the Board has not adopted a formal clawback policy to recoup incentive based compensation upon the occurrence of a financial restatement, misconduct, or other specified events. However, equity awards granted to Named Executive Officers are subject to the terms of the Long-Term Incentive Plan, which states that such awards may be cancelled, repurchased and/or recouped to the extent required by applicable law or any clawback policy that we adopt. The Compensation Committee will evaluate the practical, administrative and other implications of adopting, implementing and enforcing a clawback policy.

2015 Compensation Decisions

Long-Term Equity Incentive Compensation

In October 2014, the Compensation Committee approved annual grants of restricted units and performance units to certain of our Named Executive Officers for the 2015 year. Pursuant to SEC rules, the long-term equity incentive awards granted in October 2014 for the 2015 year are disclosed as 2014 compensation in the Summary Compensation Table and are reported in the 2014 Grants of Plan-Based Awards table below. These awards are also described in greater detail in the narrative that follows.

Restricted Unit Awards

In October 2014, Messrs. Shaw and Cunningham were the only Named Executive Officers who were granted restricted units. The number of restricted units granted to each Named Executive Officer that received restricted units in October 2014 was determined in the same manner as the November 2013 restricted unit awards described above. The following table sets forth the number of restricted units awarded to each of them in October 2014 for the 2015 year:

Name	Number of Restricted Units
Bruce R. Shaw	9,684
Mark T. Cunningham	6,705

Restricted unitholders have all the rights of a unitholder with respect to the restricted units, including the right to receive all distributions paid with respect to such restricted units (at the same rate as distributions paid on our common

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. The distributions are not subject to forfeiture.

The restricted units granted in October 2014 to Messrs. Shaw and Cunningham vest in three equal annual installments as noted in the following table and will be fully vested and nonforfeitable after December 15, 2017.

Restricted Unit Vesting Criteria

Vesting Date (1)	Cumulative Amount of Restricted Units Vested
Immediately following December 15, 2015	1/3
Immediately following December 15, 2016	2/3
Immediately following December 15, 2017	All

(1) Vesting will occur on the first business day following December 15 if December 15 falls on a Saturday or a Sunday. The provisions affecting the vesting of these awards upon a change in control or certain terminations of employment are described in greater detail below in the section titled “Potential Payments upon Termination and Change in Control.”

Performance Unit Awards

In October 2014, Messrs. Shaw and Cunningham were the only Named Executive Officers who were granted performance units. The performance period for the October 2014 awards began on January 1, 2015 and ends on December 31, 2017. The target number of performance units granted to each Named Executive Officer that received performance units in October 2014 was determined in the same manner as the November 2013 performance unit awards described above. The following table sets forth the target performance units granted to Messrs. Shaw and Cunningham in October 2014 for the 2015 year:

Name	Target Number of Performance Units
Bruce R. Shaw	9,684
Mark T. Cunningham	2,235

The Compensation Committee determined that the increase in distributable cash flow per common unit during the performance period should be used as the performance objective for the performance unit awards granted in October 2014, which is the same performance objective utilized for the November 2013 awards. The actual number of units earned at the end of the performance period is based on the “Achieved Distributable Cash Flow/Unit” as compared to the “Base Distributable Cash Flow/Unit,” “Target Distributable Cash Flow/Unit” and “Incentive Distributable Cash Flow/Unit.” The actual number of units earned at the end of the performance period will be calculated in the same manner as the performance unit awards granted in November 2013, as adjusted to reflect the applicable performance period for the 2015 awards.

Prior to vesting, distributions are paid on each outstanding performance unit, based on the target number of performance units subject to the award, at the same rate as distributions paid on our common units. The distributions are not subject to forfeiture.

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.

Members of the Compensation Committee:
Michael C. Jennings, Chairman
Charles M. Darling, IV
William J. Gray
William P. Stengel
James G. Townsend

Executive Compensation Tables

The following executive compensation tables and related information are intended to be read together with the more detailed disclosure regarding our executive compensation program presented under the caption "Compensation Discussion and Analysis."

Summary Compensation Table

The table below summarizes the total compensation paid or earned by each of the Named Executive Officers for the years specified to the extent such compensation is allocable to us pursuant to SEC rules.

Name and Principal Position (1)	Year	Salary	Bonus (2)	Unit Awards (3)	Non-Equity Incentive Plan Compensation (4)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (5)	All Other Compensation (6)	Total
Michael C. Jennings Chief Executive Officer (7)	2014	$1,060,000	—	—	$262,411	—	—	$1,322,411
Douglas S. Aron Executive Vice President and Chief Financial Officer (8)	2014	$560,000	—	—	$11,967	—	—	$571,967
	2013	530,000	—	—	124,850	—	—	654,850
	2012	261,350	—	—	—	—	—	261,350
Bruce R. Shaw President	2014	$468,000	$132,945	$650,184	$141,055	$2,200	$92,690	$1,487,074
	2013	450,000	156,335	1,200,172	151,965	—	96,069	2,054,541
	2012	400,707	—	—	—	—	—	400,707
Mark T. Cunningham Senior Vice President, Operations	2014	$278,100	$74,041	$300,116	$60,960	—	$100,870	$814,086
	2013	270,000	67,588	550,129	66,312	—	97,900	1,051,929
	2012	236,160	47,920	250,043	52,080	31,211	97,280	714,694
Denise C. McWatters Senior Vice President, General Counsel and Secretary (9)	2014	$400,000	—	—	$45,057	—	—	$445,057

(1) As a result of changes to our grant timing practices adopted by the Compensation Committee during the fourth quarter of 2013, Messrs. Shaw and Cunningham received two grants of long-term equity incentive awards during 2013-(a) one for the 2013 year, granted in March 2013, and (b) one for the 2014 year, granted in November 2013. Because the awards for the 2014 year were granted during 2013, they are reported in the "Unit Awards" column of the Summary Compensation Table for 2013 rather than 2014, in accordance with SEC rules. As a result of this reporting requirement, the amount of compensation awarded to Messrs. Shaw and Cunningham for 2013 is overstated. Long-term equity incentive awards granted in October 2014 for the 2015 year are reported in the "Unit Awards" column of the Summary Compensation Table for 2014, in accordance with SEC rules. The awards for the 2015 year are described above in the section titled "Compensation Discussion and Analysis-2015 Compensation

Decisions-Long-Term Equity Incentive Compensation."

(2) Represents the discretionary bonus amount, if any, paid pursuant to the individual performance metric under our Annual Incentive Plan and any other bonus paid outside our Annual Incentive Plan. Other payments made under our Annual Incentive Plan are included in the "Non-Equity Incentive Plan Compensation" column.

For 2014, includes a special one-time discretionary bonus paid to (a) Mr. Shaw ($10,680) due to his understanding of our business, his credibility and approach with our employees and his overall commitment to the organization, and (b) Mr. Cunningham ($7,992) for his efforts and contributions to us in 2014.

(3) Represents the aggregate grant date fair value of awards of restricted units and performance units made in the year indicated computed in accordance with FASB ASC Topic 718, determined without regard to forfeitures, and does not reflect the actual value that may be recognized by the executive. See Note 6 to our consolidated financial statements for the fiscal year ended December 31, 2014 for a discussion of the assumptions used in determining the FASB ASC Topic 718 grant date fair value of these awards.

Because the awards for the 2014 year were granted in November 2013, they are reported in the “Unit Awards” column of the Summary Compensation Table for 2013 rather than 2014, in accordance with SEC rules. The restricted unit and performance unit awards for the 2015 year were granted in October 2014 and are reported in the “Unit Awards” column of the Summary Compensation Table for 2014 rather than 2015, in accordance with SEC rules.

With respect to performance units awarded in October 2014, the amounts in the Summary Compensation Table are based on a probable payout percentage of 100%. If the performance units granted in October 2014 are paid out at the maximum payout level of 150% for Messrs. Shaw and Cunningham, the grant date fair value of their 2015 award of performance units would be as follows: Mr. Shaw, $487,638 and Mr. Cunningham, $112,527.

The terms of the restricted unit and performance unit awards granted in October 2014 for the 2015 year are described under “Compensation Discussion and Analysis - 2015 Compensation Decisions - Long-Term Equity Incentive Compensation.” For additional information on outstanding restricted unit and performance unit awards, see below under “Outstanding Equity Awards at Fiscal Year End.” No forfeitures of equity awards held by the Named Executive Officers occurred in 2014.

(4) Represents the bonus amount, if any, paid under our Annual Incentive Plan, other than with respect to the individual performance metric (which amounts are reported in the “Bonus” column). The 2014 bonus amounts under our Annual Incentive Plan are described above in greater detail under “Compensation Discussion and Analysis-Overview of 2014 Executive Compensation Components and Decisions-Annual Incentive Cash Bonus Compensation.” See notes 7 through 9 to the Summary Compensation Table for a discussion of the amounts reported as “Non-Equity Incentive Plan Compensation” with respect to Messrs. Jennings and Aron and Ms. McWatters, respectively.

(5) For Mr. Shaw, represents the aggregate change in the actuarial present value of his accumulated benefits under the Restoration Plan. The Retirement Plan was liquidated in June 2013.

(6) For 2014, includes the compensation as described under “All Other Compensation” below.

(7) During 2014, Mr. Jennings split his professional time between HFC and us, and all compensation paid to him for 2014 was determined and paid by HFC. In accordance with SEC rules, a portion of the total compensation paid by HFC to Mr. Jennings for 2014 is allocated to the services he performed for us during 2014. The allocation was made based on the assumption that Mr. Jennings spent, in the aggregate, approximately 15% of his professional time in 2014 on our business and affairs. As a result 15% of the total amount of compensation Mr. Jennings received from HFC for 2014 has been reported in this table and the allocated amount has been solely attributed in the table above to Mr. Jennings’s base salary and non-equity incentive plan compensation. This amount represents the aggregate dollar value of total compensation paid to Mr. Jennings by HFC (including base salary, non-equity incentive plan compensation, equity awards and other compensation), calculated pursuant to SEC rules, and multiplied by 15%. The total compensation paid by HFC to Mr. Jennings in 2014 (including the portion of his salary and non-equity incentive plan compensation reported in this table) as well as a discussion of how the total amount of his non-equity incentive plan compensation for 2014 was determined will be disclosed in HFC’s 2015 Proxy Statement.

(8) During 2014, Mr. Aron split his professional time between HFC and us, and all compensation paid to him for 2014 was determined and paid by HFC. In accordance with SEC rules, a portion of the total compensation paid by HFC to Mr. Aron for 2014 is allocated to the services he performed for us during 2014. The allocation was made based on the assumption that Mr. Aron spent, in the aggregate, approximately 20% of his professional time in 2014 on our business and affairs. As a result, 20% of the total amount of compensation Mr. Aron received from HFC for 2014 has been reported in this table and the allocated amount has been solely attributed in the table above to Mr. Aron’s base salary and non-equity incentive plan compensation. This amount represents the aggregate dollar value

of total compensation paid to Mr. Aron by HFC (including base salary, non-equity incentive plan compensation, equity awards and other compensation), calculated pursuant to SEC rules, and multiplied by 20%. The total compensation paid by HFC to Mr. Aron in 2014 (including the portion of his salary and non-equity incentive plan compensation reported in this table) as well as a discussion of how the total amount of his non-equity incentive plan compensation for 2014 was determined will be disclosed in HFC's 2015 Proxy Statement.

(9) During 2014, Ms. McWatters split her professional time between HFC and us, and all compensation paid to her for 2014 was determined and paid by HFC. In accordance with SEC rules, a portion of the total compensation paid by HFC to Ms. McWatters for 2014 is allocated to the services she performed for us during 2014. The allocation was made based on the assumption that Ms. McWatters spent, in the aggregate, approximately 30% of her professional time in 2014 on our business and affairs. As a result, 30% of the total amount of compensation Ms. WcWatters received from HFC for 2014 has been reported in this table and the allocated amount has been solely attributed in the table above to Ms. McWatters's base salary and non-equity incentive plan compensation. This amount represents the aggregate dollar value of total compensation paid to Ms. McWatters by HFC (including base salary, non-equity incentive plan compensation, equity awards and other compensation), calculated

pursuant to SEC rules, and multiplied by 30%. The total compensation paid by HFC to Ms. McWatters in 2014 (including the portion of her salary and non-equity incentive plan compensation reported in this table) as well as a discussion of how the total amount of her non-equity incentive plan compensation for 2014 was determined will be disclosed in HFC's 2015 Proxy Statement.

All Other Compensation

The table below describes the components of the compensation included in the "All Other Compensation" column for 2014 in the Summary Compensation Table above.

Name	401(k) Plan Company Matching Contributions	401(k) Plan Retirement Contributions	NQDC Plan Company Matching Contributions	NQDC Plan Retirement Contributions	Transition Benefit Contributions	Tax Reimbursements (1)	Total
Michael C. Jennings	—	—	—	—	—	—	—
Douglas S. Aron	—	—	—	—	—	—	—
Bruce R. Shaw	$15,600	$ 16,900	$ 28,891	$31,299	—	—	$92,690
Mark T. Cunningham	15,600	13,650	10,373	9,076	$52,000	$171	100,870
Denise C. McWatters	—	—	—	—	—	—	—

(1) For Mr. Cunningham, represents tax payments made on the executive's behalf with respect to imputed income for family travel on HFC's aircraft when the executive was traveling for business purposes and the family travel is business related.

Grants of Plan-Based Awards

The following table sets forth information about plan-based awards granted to our Named Executive Officers under our equity and non-equity incentive plans during 2014. In this table, awards are abbreviated as "AICP" for the annual incentive cash awards under our Annual Incentive Plan (other than with respect to the discretionary individual performance portion of the awards), as "RUA" for restricted unit awards, and as "PUA" for performance unit awards. In 2014, awards of performance units and restricted units were issued under our Long-Term Incentive Plan. Messrs. Jennings and Aron and Ms. McWatters did not receive any plan-based awards from us during 2014.

The restricted unit and performance unit grants reported below were granted in October 2014 for the 2015 year and are reported in this table as 2014 compensation in accordance with SEC rules. These awards are described in greater detail above under "Compensation Discussion and Analysis-2015 Compensation Decisions-Long-Term Equity Incentive Compensation." Annual long-term equity incentive awards are made once each year in the fourth quarter of the year preceding the year to which the award relates in order to align the timing of the long-term equity incentive award grants with the timing of the other compensation decisions made for our executive officers. In accordance with SEC rules, the annual long-term equity incentive awards granted in November 2013 for the 2014 year were previously reported as 2013 compensation in the Grants of Plan-Based Awards table contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

	Type	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)				
Name			Threshold	Target	Maximum	Threshold	Target	Maximum	All other Equity Awards	Grant Date Fair Value

									(3)	(4)
Michael C. Jennings	—	—	—	—	—	—	—	—	—	—
Douglas S. Aron	—	—	—	—	—	—	—	—	—	—
Bruce R. Shaw	AICP		$0	$128,700	$257,400					
	PUA	10/29/2014				4,842	9,684	14,526		$325,092
	RUA	10/29/2014							9,684	$325,092
Mark T. Cunningham	AICP		$0	$55,620	$111,240					
	PUA	10/29/2014				1,118	2,235	3,352		$75,029
	RUA	10/29/2014							6,705	$225,087
Denise C. McWatters	—	—	—	—	—	—	—	—	—	—

(1) Represents the potential payouts for the awards under our Annual Incentive Plan, which were subject to the achievement of certain performance metrics. The performance metrics and awards are described under "Compensation Discussion and Analysis - Overview of 2014 Executive Compensation Components and Decisions - Annual Incentive Cash Bonus Compensation." Amounts reported do not include amounts potentially payable pursuant to the discretionary individual performance portion of the award. The amount actually paid with respect to the individual performance portion of the award is reported in the "Bonus" column of the Summary Compensation Table for 2014, and the amount actually paid with respect

to the portion of the award reported in this table is reported in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table for 2014.

(2) Represents the potential number of performance units payable under the Long-Term Incentive Plan. The number of units paid at the end of the performance period may vary from the target amount, based on our achievement of specified performance measures. The terms of the performance unit awards granted in October 2014 for the 2015 year are described above under "Compensation Discussion and Analysis - 2015 Compensation Decisions - Long-Term Equity Incentive Compensation - Performance Unit Awards."

(3) Represents awards of restricted units. The terms of the restricted unit awards granted in October 2014 for the 2015 year are described above under and "Compensation Discussion and Analysis - 2015 Compensation Decisions - Long-Term Equity Incentive Compensation - Restricted Unit Awards."

(4) Represents the grant date fair value determined pursuant to FASB ASC Topic 718, based on a closing price of our common units of $33.57 on October 29, 2014. The value of performance units granted on October 29, 2014 reflects a probable payout percentage of 100%.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth information regarding outstanding restricted units and performance units held by each Named Executive Officer as of December 31, 2014, including awards that were granted prior to 2014. The value of these awards was calculated based on a price of $29.91 per unit, the closing price of our common units on December 31, 2014. Messrs. Jennings and Aron and Ms. McWatters do not hold any outstanding equity awards under our Long-Term Incentive Plan.

Under SEC rules, the number and value of performance units reported is based on the number of units payable at the end of the performance period assuming the maximum level of performance is achieved. In this table, awards are abbreviated as "RUA" for restricted unit awards and as "PUA" for performance unit awards. The provisions applicable to these awards upon certain terminations of employment or a change in control are described below in the section titled "Potential Payments upon Termination or Change in Control."

Name	Award Type	Number of Units That Have Not Vested (1)	Market Value of Units That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Units or Other Rights That Have Not Vested
Michael C. Jennings	—	—	—	—	—
Douglas S. Aron	—	—	—	—	—
Bruce R. Shaw	RUA	19,056	$569,965		
	PUA			40,661	$1,216,156
Mark T. Cunningham	RUA	12,912	$386,198		
	PUA			9,270	$277,266
Denise C. McWatters	—	—	—	—	—

(1) Includes the following restricted unit awards granted by us:

- in March 2013 to Mr. Shaw (6,732) and Mr. Cunningham (5,049), of which one third vested on December 15, 2013, one third vested on December 15, 2014 and the remaining one third vests on December 15, 2015;
- in November 2013 to Mr. Shaw (10,692) and Mr. Cunningham (6,786), of which one third vested on December 15, 2014, one third vests on December 15, 2015 and the remaining one third vests on December 15, 2016; and
-

in October 2014 to Mr. Shaw (9,684) and Mr. Cunningham (6,705), of which one third vests on December 15, 2015, one third vests on December 15, 2016 and the remaining one third vests on December 15, 2017.

(2) Includes the following performance unit awards granted by us (the amounts included in the parentheticals reflect the target number of performance units subject to each award):

- in March 2013 to Mr. Shaw (6,731) and Mr. Cunningham (1,683), in each case, with a performance period that ends on December 31, 2015;
- in November 2013 to Mr. Shaw (10,692) and Mr. Cunningham (2,262), in each case, with a performance period that ends on December 31, 2016; and

- in October 2014 to Mr. Shaw (9,684) and Mr. Cunningham (2,235), in each case, with a performance period that ends on December 31, 2017.

For the performance units, the actual number of units earned at the end of the performance period is based on the "Achieved Distributable Cash Flow/Unit" as compared to the "Base Distributable Cash Flow/Unit," "Target Distributable Cash Flow/Unit" and "Incentive Distributable Cash Flow/Unit." Under the terms of the grants, each of Messrs. Shaw and Cunningham may earn from 50% to 150% of the target number of performance units granted to him.

Option Exercises and Units Vested

The following table provides information regarding the vesting in 2014 of restricted unit awards held by the Named Executive Officers. None of the performance unit awards held by the Named Executive Officers vested in 2014. Messrs. Jennings and Aron and Ms. McWatters do not currently hold any equity awards under our Long-Term Incentive Plan and did not have any equity awards under our Long-Term Incentive Plan that vested during 2014. To date, we have not granted any unit options.

The value realized from the vesting of restricted unit awards is equal to the closing price of our common units on the vesting date (or, if the vesting date is not a trading day, on the trading day immediately following the vesting date, unless provided otherwise by the applicable award agreement) multiplied by the number of units acquired on vesting. The value is calculated before payment of any applicable withholding or other income taxes.

Named Executive Officer	Unit Awards	
	Number of Units Acquired on Vesting	Value Realized on Vesting
Michael C. Jennings	—	—
Douglas S. Aron	—	—
Bruce R. Shaw	5,808	$168,374
Mark T. Cunningham	6,668	$193,305
Denise C. McWatters	—	—

Pension Benefits Table

As discussed in greater detail above under "Compensation Discussion and Analysis-Overview of 2014 Executive Compensation Components and Decisions-Retirement and Other Benefits-Retirement Pension Plans and Transition Benefit," HFC previously maintained the Retirement Plan, a tax-qualified defined benefit retirement plan, that was liquidated in 2013. Messrs. Shaw and Cunningham were the only Named Executive Officers who were participants in the Retirement Plan. As part of the liquidation of the Retirement Plan, the retirement benefits owed to Messrs. Shaw and Cunningham were distributed in a lump sum, and neither Mr. Shaw nor Mr. Cunningham is owed any additional benefits under the Retirement Plan.

HFC continues to maintain the Restoration Plan, which is an unfunded non-qualified plan that provides supplemental retirement benefits to participating executives whose Retirement Plan benefits were subject to certain Internal Revenue Code limitations. As of January 1, 2012, participants in the Restoration Plan are no longer accruing additional benefits. Mr. Shaw is the only Named Executive Officer who has accumulated benefits under the Restoration Plan.

The supplemental retirement benefits under the Restoration Plan are provided so that the total retirement benefits for the participants are maintained at the levels contemplated in the Retirement Plan before application of Internal Revenue Code limitations. Specifically, the amount of benefits payable under the Restoration Plan is equal to a participant's benefit payable in the form of a life annuity calculated under the Retirement Plan without regard to the Internal Revenue Code limitations less the amount of the Retirement Plan benefit that can be paid under the Retirement Plan after application of Internal Revenue Code limits. Benefits under the Restoration Plan are generally payable in the same form and at the same time as the participant's benefits under the Retirement Plan for benefits

earned through 2004 (pre-409A benefits), and as a lump sum for benefits earned after 2004 (post-409A benefits). The Restoration Plan has not been terminated and post-409A benefits will generally not be paid until a participant's separation from service in accordance with applicable Internal Revenue Code rules.

In connection with the cessation of benefit accruals under the Retirement Plan and the Restoration Plan in 2012, HFC adopted a Transition Benefit Plan pursuant to which eligible participants are provided a transition benefit for each of 2012, 2013, and 2014. For executive officers, the transition benefit is paid in the form of a transition benefit contribution to the NQDC Plan. For additional information regarding these transition benefit contributions, see the narrative preceding the "Nonqualified Deferred Compensation Table."

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During Last Fiscal Year
Michael C. Jennings	—	—	—	—
Douglas S. Aron	—	—	—	—
Bruce R. Shaw	Restoration Plan	8.25	$10,956	—
Mark T. Cunningham	—	—	—	—
Denise C. McWatters	—	—	—	—

The actuarial present value of the accumulated benefits under the Restoration Plan reflected in the above chart was determined using the same assumptions as used for financial reporting purposes (which are discussed further in Note 16 to HFC's consolidated financial statements for the fiscal year ended December 31, 2014), except the payment date was assumed to be age 62 rather than age 65. The earliest age at which a benefit can be paid with no benefit reduction under the Restoration Plan is age 62. In addition, the material assumptions used for these calculations include the following:

Discount Rate 3.65%

Mortality Table RP-2014 Mortality with Scale MP-2014 - Generational Annuitant, male and female

Nonqualified Deferred Compensation

In 2014, all of the Named Executive Officers participated in the NQDC Plan. The NQDC Plan functions as a pour-over plan, allowing key employees to defer tax on income in excess of Internal Revenue Code limits that apply under the 401(k) Plan. For 2014, the annual deferral contribution limit under the 401(k) Plan was $17,500, and the annual compensation limit was $260,000. Deferral elections made by eligible employees under the NQDC Plan apply to the total amount of eligible earnings the employees want to contribute across both the 401(k) Plan and the NQDC Plan. Once eligible employees reach the Internal Revenue Code limits on contributions under the 401(k) Plan, contributions automatically begin being contributed to the NQDC Plan. Federal and state income taxes are generally not payable on income deferred under the NQDC Plan until funds are withdrawn.

Eligible employees may make salary deferral contributions between 1% and 50% of eligible earnings to the NQDC Plan. Eligible earnings include base pay, bonuses and overtime, but exclude extraordinary pay such as severance, accrued vacation, equity compensation, and certain other items. Eligible participants are required to make catch-up contributions to the 401(k) Plan before any contributions will be deposited into the NQDC Plan. For 2014, the catch-up contribution limit was $5,500. Deferral elections are irrevocable for an entire plan year and must be made prior to December 31 immediately preceding the plan year. Elections will carry over to the next plan year unless changed or otherwise revoked.

Participants in the NQDC Plan are eligible to receive a matching restoration contribution with respect to their elective deferrals made up to 6% of the participant's eligible earnings for the plan year in excess of the limits under Section 401(k) of the Internal Revenue Code. These matching restoration contributions are fully vested at all times. In addition, participants are eligible for a retirement restoration contribution ranging from 3% to 8% of the participant's eligible earnings for the plan year in excess of the limits under Section 401(k) of the Internal Revenue Code, based on years of service, as follows:

Years of Services	Retirement Contribution (as percentage of eligible compensation)

Less than 5 years	3%
5 to 10 years	4%
10 to 15 years	5.25%
15 to 20 years	6.5%
20 years and over	8%

Retirement restoration contributions are subject to a three-year cliff vesting period and will become fully vested in the event of the participant's death or a change in control. Participants may also receive nonqualified nonelective contributions under the NQDC Plan, which contributions may be subject to a vesting schedule determined at the time the contributions are made.

Former participants in the Retirement Plan whose benefit accruals ceased as of the close of business on December 31, 2011 are also eligible to receive a transition benefit contribution under the NQDC Plan for plan years 2012, 2013 and 2014. The amount of the transition benefit contribution for each year is equal to the participant's eligible compensation (determined in accordance with the Transition Benefit Plan) as of December 31 of that year, multiplied by a transition benefit percentage determined based on the participant's eligible years of service as of January 1, 2012 (in the case of salaried employees) in accordance with the following table:

Years of Services	Transition Benefit (as percentage of eligible compensation)
Less than 5 years	10%
5 to 15 years	20%
15 to 20 years	25%
20 years and over	35%

The participant must be employed on the last day of the year (subject to certain exceptions for death or disability) in order to earn a transition benefit contribution for that year. Transition benefit contributions are fully vested immediately. Eligible compensation used to calculate the transition benefit contribution is subject to applicable Internal Revenue Code limits ($260,000 in 2014), except that if an employee participated in the Restoration Plan, all of his or her eligible compensation will be taken into consideration in determining the transition benefit contribution.

Participating employees have full discretion over how their contributions to the NQDC Plan are invested among the offered investment options, and earnings on amounts contributed to the NQDC Plan are calculated in the same manner and at the same rate as earnings on actual investments. Neither HLS nor HFC subsidizes a participant's earnings under the NQDC Plan. During 2014, the investment options offered under the NQDC Plan were the same as the investment options available to participants in the tax-qualified 401(k) Plan, except that the tax-qualified 401(k) Plan offers the Principal Stable Value Fund and the NQDC Plan instead offers the Principal Money Market Fund. Earnings for 2014 with respect to NQDC Plan amounts invested in the Principal Money Market Fund did not exceed 120% of the applicable long-term federal rate (2.60%) and, as a result, no above market or preferential earnings were paid under the NQDC Plan for 2014. The following table lists the investment options for the NQDC Plan in 2014 with the annual rate of return for each fund:

Investment Funds	Rate of Return
AllianzGI NFJ Small Cap Value I Fund	2.01%
American Century Mid-Cap Value Instl Fund	16.55%
Buffalo Small Cap Fund	-6.55%
Columbia Acorn International Z Fund	-4.28%
Columbia Acorn Z Fund	0.82%
Fidelity Contrafund	9.56%
Fidelity Low-Priced Stock Fund	7.65%
Harbor Capital Appreciation Inst Fund	9.93%
LargeCap S&P 500 Index Inst Fund	13.50%
MidCap S&P 400 Index Inst Fund	9.51%
Money Market Inst Fund	—
Oppenheimer Developing Markets Institutional Fund	-4.39%
PIMCO Total Return Instl Fund	4.69%
PIMCO All Asset All Authority Inst Fund	-2.35%
SmallCap S&P 600 Index Inst Fund	5.52%
T. Rowe Price Retirement Balanced Fund	3.91%
T. Rowe Price Retirement 2005 Fund	4.72%
T. Rowe Price Retirement 2010 Fund	4.99%
T. Rowe Price Retirement 2015 Fund	5.37%
T. Rowe Price Retirement 2020 Fund	5.63%
T. Rowe Price Retirement 2025 Fund	5.84%
T. Rowe Price Retirement 2030 Fund	6.05%
T. Rowe Price Retirement 2035 Fund	6.07%
T. Rowe Price Retirement 2040 Fund	6.18%
T. Rowe Price Retirement 2045 Fund	6.14%
T. Rowe Price Retirement 2050 Fund	6.19%
T. Rowe Price Retirement 2055 Fund	6.18%
Thornburg International Value R6 Fund	-5.37%
Vanguard Equity-Income Adm. Fund	11.38%
Vanguard Total Bond Market Index Admiral Fund	5.89%
Vanguard Total International Stock Index Admiral Fund	-4.17%

Benefits under the NQDC Plan may be distributed upon the earliest to occur of a separation from service (subject to a six month payment delay for certain specified employees under Section 409A of the Internal Revenue Code), the participant's death, a change in control or a specified date selected by the participant in accordance with the terms of the NQDC Plan. Benefits are distributed from the NQDC Plan in the form of a lump sum payment or, in certain circumstances if elected by the participant, in the form of annual installments for up to a five year period.

Nonqualified Deferred Compensation Table

The NQDC Plan benefits for Messrs. Shaw and Cunningham were charged to us in 2014 pursuant to the Omnibus Agreement. The following table provides information regarding contributions to, and the year-end balance of, the NQDC Plan accounts for the Named Executive Officers (other than Messrs. Jennings and Aron and Ms. McWatters) in 2014. Even though Messrs. Jennings and Aron and Ms. McWatters are also participants in the NQDC Plan, we have not provided any disclosure with respect to their NQDC Plan benefits since those benefits are paid for by HFC. Additional information regarding the NQDC Plan, and participation in the NQDC Plan by Messrs. Jennings and Aron and Ms. McWatters, will be provided in HFC's 2015 Proxy Statement.

Name	Executive Contributions (1)	Company Contributions (2)	Aggregate Earnings	Aggregate Withdrawals/ Distributions	Aggregate Balance at December 31, 2014 (3)
Michael C. Jennings	—	—	—	—	—
Douglas S. Aron	—	—	—	—	—
Bruce R. Shaw	$26,991	$60,190	$0	—	$342,153
Mark T. Cunningham	47,432	71,449	12,667	—	376,437
Denise C. McWatters	—	—	—	—	—

(1) The amounts reported were deferred at the election of the Named Executive Officer and are also included in the amounts reported in the “Salary,” “Bonus” and/or “Non-Equity Incentive Plan Compensation” columns of the Summary Compensation Table for 2014.

(2) These amounts are also included in the “All Other Compensation” column of the Summary Compensation Table for 2014.

(3) The aggregate balance for each Named Executive Officer reflects the cumulative value, as of December 31, 2014, of the employee and employer-provided contributions to the NQDC Plan for the Named Executive Officer’s account, and any earnings on these amounts, since the Named Executive Officer began participating in the NQDC Plan in 2012. In addition, for Mr. Cunningham, the aggregate balance also includes his transition benefit payment earned for 2014 that was not paid to him until 2015. We previously reported executive and company contributions for Messrs. Shaw and Cunningham in the Summary Compensation Table in the following aggregate amounts: (a) Mr. Shaw - $90,762 (for 2013), and (b) Mr. Cunningham - $116,120 (for 2012) and $113,145 (for 2013).

Potential Payments upon Termination or Change in Control

We have Change in Control Agreements with certain of the Named Executive Officers and maintain the Long-Term Incentive Plan, each of which provide for severance compensation and/or accelerated vesting of equity compensation in the event of a termination of employment following a change in control or under other specified circumstances. These arrangements are summarized below.

Change in Control Agreements

During 2014, Messrs. Shaw and Cunningham were each party to a Change in Control Agreement with us, in accordance with our Change in Control Policy. We entered into a Change in Control Agreement with Mr. Shaw, effective as of January 1, 2013, and with Mr. Cunningham, effective as of February 14, 2011. We bear all costs and expenses associated with these agreements.

HFC has Change in Control Agreements with each of Messrs. Jennings and Aron and Ms. McWatters, which were in effect during 2014. Payments and benefits under the HFC Change in Control Agreements are triggered only upon a change in control of HFC. The terms of the HFC Change in Control Agreements, and a quantification of potential benefits under the HFC Change in Control Agreements with Messrs. Jennings and Aron and Ms. McWatters will be disclosed in HFC’s 2015 Proxy Statement.

The Change in Control Agreements under our Change in Control Policy terminate on the day prior to the three year anniversary of the effective date, and thereafter automatically renew for successive one year terms (on each anniversary date thereafter) unless a cancellation notice is given by us 60 days prior to the automatic extension date. The Change in Control Agreements provide that if, in connection with or within two years after a "Change in Control" of HFC, HLS or HEP (1) the executive's employment is terminated without "Cause," voluntarily for "Good Reason," or as a condition of the occurrence of the transaction constituting the "Change in Control," and (2) the executive is not offered employment with HFC, HLS, HEP, HEP Logistics or any of their affiliates on substantially the same terms in the aggregate as his previous employment within 30 days after the termination, then the executive will receive the following cash severance amounts paid by us:

- an amount equal to his accrued and unpaid salary, unreimbursed expenses and accrued vacation pay, and
- a lump sum amount equal to a designated multiplier times (i) the executive's annual base salary as of the date of termination or the date immediately prior to the "Change in Control," whichever is greater, and (ii) the executive's annual bonus amount, calculated as the average annual bonus paid to him for the prior three years. The severance multiplier is (a) 2.0 for Mr. Shaw, and (b) 1.0 for Mr. Cunningham.

The executive will also receive continued participation by the executive and his or her dependents in medical and dental benefits for the number of years equal to the executive's designated multiplier.

For purposes of the Change in Control Agreements, a “Change in Control” occurs if:

- a person or group of persons (other than HFC or any of its wholly-owned subsidiaries or HLS, HEP, HEP Logistics or any of their subsidiaries) becomes the beneficial owner of more than 50% of the combined voting power of the then outstanding securities of HFC, HLS, HEP or HEP Logistics or more than 50% of the outstanding common stock or membership interests, as applicable or HFC or HLS;
- a majority of HFC’s Board of Directors is replaced during a 12-month period by directors who were not endorsed by a majority of the previous board members;
- the consummation of a merger, consolidation or recapitalization of HFC, HLS, HEP or HEP Logistics resulting in the holders of voting securities of HFC, HLS, HEP or HEP Logistics, as applicable, prior to the merger or consolidation owning less than 50% of the combined voting power of the voting securities of HFC, HLS, HEP or HEP Logistics, as applicable, or a recapitalization of HFC, HLS, HEP or HEP Logistics in which a person or group becomes the beneficial owner of securities of HFC, HLS, HEP or HEP Logistics, as applicable, representing more than 50% of the combined voting power of the then outstanding securities of HFC, HLS, HEP or HEP Logistics, as applicable;
- the holders of voting securities of HFC or HEP approve a plan of complete liquidation or dissolution of HFC or HEP, as applicable; or
- the holders of voting securities of HFC or HEP approve the sale or disposition of all or substantially all of the assets of HFC or HEP, as applicable, other than to an entity holding at least 60% of the combined voting power of the voting securities immediately prior to such sale or disposition.

For purposes of the Change in Control Agreements, “Cause” is defined as:

- the engagement in any act of willful gross negligence or willful misconduct on a matter that is not inconsequential; or
- conviction of a felony.

For purposes of the Change in Control Agreements, “Good Reason” is defined as, without the express written consent of the executive:

- a material reduction in the executive’s (or his supervisor’s) authority, duties or responsibilities;
- a material reduction in the executive’s base compensation; or
- the relocation of the executive to an office or location more than 50 miles from the location at which the executive normally performed the executive’s services, except for travel reasonably required in the performance of the executive’s responsibilities.

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

If amounts payable to an executive under a Change in Control Agreement (together with any other amounts that are payable by HFC, HLS, HEP or HEP Logistics as a result of a change in ownership or control) exceed the amount allowed under Section 280G of the Internal Revenue Code for such executive by 10% or more, we will pay the executive an amount necessary to allow the executive to retain a net amount equal to the total present value of the payments on the date they are to be paid. Conversely, if the payments exceed the 280G limit for the executive by less than 10%, the payments will be reduced to the level at which no excise tax applies.

Long-Term Equity Incentive Awards

The outstanding long-term equity incentive awards granted under the Long-Term Incentive Plan to our Named Executive Officers vest upon a "Special Involuntary Termination," which occurs when, within 60 days prior to or at any time after a "Change in Control":

- the executive's employment is terminated, other than for "Cause," or

- the executive resigns within 90 days following an "Adverse Change."

All outstanding performance units will vest at 150% in the event of a Special Involuntary Termination.

In the event of an executive's death, disability or retirement, restricted units and performance units vest as follows:

- Restricted Units: The executive will vest with respect to a pro rata number of units attributable to the period of service completed during the applicable vesting period and will forfeit any unvested units.
- Performance Units: The executive will remain eligible to vest with respect to a pro rata number of units attributable to the period of service completed during the applicable performance period (rounded up to include the month of termination) and will forfeit any unvested units. The Compensation Committee will determine the number of remaining performance units earned and the amount to be paid to the executive as soon as administratively possible after the end of the performance period based upon the performance actually attained for the entire performance period (provided that executives will earn and receive payment with respect to no less than 50% of the performance units awarded in 2013 and 2014). The foregoing also applies if the executive separates from employment for any other reason other than a voluntary separation, Special Involuntary Separation or for "Cause."

For purposes of the long-term equity incentive awards, a "Change in Control" occurs if:

- a person or group of persons (other than HFC or any of its wholly-owned subsidiaries or HLS, HEP, HEP Logistics or any of their subsidiaries) becomes the beneficial owner of more than 40% of the combined voting power of the then outstanding securities of HFC, HLS, HEP or HEP Logistics;
- the individuals who as of the date of grant constituted a majority of HFC's Board of Directors cease for any reason to constitute a majority of HFC's Board of Directors;
- the consummation of a merger, consolidation or recapitalization of HFC, HLS, HEP or HEP Logistics resulting in the holders of voting securities of HFC, HLS, HEP or HEP Logistics, as applicable, prior to the merger or consolidation owning less than 60% of the combined voting power of the voting securities of HFC, HLS, HEP or HEP Logistics, as applicable, or a recapitalization of HFC, HLS, HEP, or HEP Logistics in which a person or group becomes the beneficial owner of securities of HFC, HLS, HEP or HEP Logistics, as applicable, representing more than 40% of the combined voting power of the then outstanding securities of HFC, HLS, HEP or HEP Logistics, as applicable;
- the holders of voting securities of HFC, HLS, HEP or HEP Logistics approve a plan of complete liquidation or dissolution of HFC, HLS, HEP or HEP Logistics, as applicable; or
- the holders of voting securities of HFC, HLS, HEP or HEP Logistics approve the sale or disposition of all or substantially all of the assets of HFC, HLS, HEP or HEP Logistics, as applicable, other than to an entity holding at least 60% of the combined voting power of the voting securities immediately prior to such sale or disposition.

For purposes of the restricted unit awards, "Adverse Change" is defined as:

- a change in the city in which the executive is required to work;
- a substantial increase in travel requirements of employment;
- a substantial reduction in the duties of the type previously performed by the executive; or
- a significant reduction in compensation or benefits (other than bonuses and other discretionary items of compensation) that does not apply generally to executives.

For purposes of the performance unit awards, "Adverse Change" is defined as, without the consent of the executive:

- a change in the executive's principal office of employment of more than 25 miles from the executive's work address at the time of grant of the award;
-

- a material increase (without adequate consideration) or material reduction in the duties to be performed by the executive; or
- a material reduction in the executive's base compensation (other than bonuses and other discretionary items of compensation) that does not apply generally to employees.

For purposes of the long-term equity incentive awards, "Cause" is defined as:

- an act of dishonesty constituting a felony or serious misdemeanor and resulting (or intended to result in) gain or personal enrichment to the executive at the expense of HLS;
- gross or willful and wanton negligence in the performance of the executive's material and substantial duties; or
- conviction of a felony involving moral turpitude.

Holly Retirement Restoration Plan

The Restoration Plan provides benefits to participants in the event of a change in control of HFC. Mr. Shaw is the only Named Executive Officer who is a participant in the Restoration Plan. Under the Restoration Plan, each participant's benefits are paid, in the form of an annuity contract and a cash payment, immediately upon such a change in control, where the stockholders of HFC before the transaction own, after the transaction, less than 40% of the effective voting power of HFC. The annuity contract is in an amount equal to the benefits otherwise due the recipient under the Restoration Plan reduced by the amount of the cash payment. Although we and HFC typically believe that double-trigger arrangements more effectively advance the interests of our unitholders and stockholders in the face of potential "change in control" transactions, HFC has elected to maintain the historical single-trigger terms of the Restoration Plan with respect to these retirement benefits held by long-time executives. Further, in light of the double-trigger arrangements in our other severance agreements, we believe our executive officers are adequately incentivized to remain employed by us (or our successor) following a corporate transaction, unless and until their employment is terminated without "cause" or due to a constructive termination. The Restoration Plan is the only arrangement in the current compensation program that provides single-trigger benefits. Because the Restoration Plan has not been liquidated, the amounts payable under the Restoration Plan upon a change in control transaction are reflected in the table below.

Quantification of Benefits

The following table summarizes the compensation and other benefits that would have been payable to the Named Executive Officers under the arrangements described above assuming their employment terminated under various scenarios, including in connection with a change in control, on December 31, 2014. For these purposes, our common unit price was assumed to be $29.91, which was the closing price per unit on December 31, 2014.

In reviewing the table, please note the following:

- Accrued vacation for a specific year is not allowed to be carried over to a subsequent year, so we assumed all accrued vacation for the 2014 year was taken prior to December 31, 2014. Because we accrue vacation in any given year for the following year, amounts reported as "Cash Payments" include accrued vacation amounts accrued in 2014 for the 2015 year.

- For amounts payable to the Named Executive Officers with respect to performance units upon a termination due to death, disability, retirement, or other separation (other than a voluntary separation, a for "Cause" separation or a Special Involuntary Termination), we assumed the performance units would be settled at the maximum level based on performance through December 31, 2014. The number of units paid at the end of the performance period may vary from the amounts reflected in the following tables, based on our actual achievement compared to the performance targets. Due to the change in vesting dates of outstanding restricted unit awards to December 15 of a given year, no amounts are reported for accelerated vesting of restricted unit awards upon termination due to death, disability or retirement because units attributable to fiscal year 2014 vested on December 15, 2014.

- The amount shown for "Value of Welfare Benefits" represents amounts equal to the monthly premium payable pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), for medical and dental premiums, multiplied by (a) 24 months for Mr. Shaw, and (b) 12 months for Mr. Cunningham.

- In calculating whether any tax reimbursements were owed to the Named Executive Officers, we used the following assumptions: (a) no amounts will be discounted as attributable to reasonable compensation, (b) all cash severance payments are contingent upon a change in control, and (c) the presumption required under applicable regulations that the equity awards granted in 2014 were contingent upon a change in control could be rebutted. Based on these assumptions, none of the Named Executive Officers would receive any tax reimbursement or "gross-up" payments with respect to any amounts reported in the table below.

No amounts potentially payable pursuant to the NQDC Plan are included in the table below since neither the form nor amount of any such benefits would be enhanced nor vesting or other provisions accelerated in connection with any of the triggering events disclosed below. Please refer to the section titled "Nonqualified Deferred Compensation" for additional information regarding these benefits.

Named Executive Officer	Cash Payments (1)	Value of Welfare Benefits	Vesting of Equity Awards	Total
Michael C. Jennings	—	—	—	—
Douglas S. Aron	—	—	—	—
Bruce R. Shaw				
Termination in connection with or following a Change in Control	$1,722,939	$39,232	$1,786,136	$3,548,307
Termination due to Death, Disability, Retirement or without Cause	—	—	$506,047	$506,047
Mark T. Cunningham				
Termination in connection with or following a Change in Control	$427,104	$13,891	$663,464	$1,104,459
Termination due to Death, Disability, Retirement or without Cause	—	—	$117,576	$117,576
Denise C. McWatters	—	—	—	—

(1) For Mr. Shaw, includes (a) $6,617, the amount of the Restoration Plan annuity contract (which is equal to benefits otherwise due to Mr. Shaw under the Restoration Plan, reduced by the amount of the Restoration Plan cash payment), and (b) $4,339, the amount of the Restoration Plan cash payment (which includes the reasonable estimate of the federal income tax liability resulting from the annuity contract and the cash payment, calculated using the highest 2014 marginal federal income tax rate of 39.6%).

Compensation Practices as They Relate To Risk Management

Although a significant portion of the compensation provided to the Named Executive Officers is performance-based, we believe our compensation programs do not encourage excessive and unnecessary risk taking by executive officers (or other employees) because these programs are designed to encourage employees to remain focused on both our short- and long-term operational and financial goals.

While annual cash-based incentive bonus awards play an appropriate role in the executive compensation program, the Compensation Committee believes that payment determined based on an evaluation of our performance on a variety of measures, including comparing our performance over the last year to our past performance, mitigates excessive risk-taking that could produce unsustainable gains in one area of performance at the expense of our overall long-term interests. In addition, we set performance goals that we believe are reasonable in light of our past performance and market conditions.

For Named Executive Officers performing all or a majority of their services for us, an appropriate part of total compensation is fixed, while another portion is variable and linked to performance. A portion of the variable compensation we provide is comprised of long-term incentives. A portion of the long-term incentives we provide is in the form of restricted units subject to time-based vesting conditions, which retains value even in a depressed market, so executives are less likely to take unreasonable risks. With respect to our performance units, payouts result in some compensation at levels below full target achievement, in lieu of an "all or nothing" approach. Further, our unit ownership guidelines require certain of our executives to hold at least a specified level of units (in addition to unvested and unsettled equity-based awards), which aligns an appropriate portion of their personal wealth to our long-term performance and the interests of our unitholders.

Based on the foregoing and our annual review of our compensation programs, we do not believe that our compensation policies and practices are reasonably likely to have a material adverse effect on us or our unitholders.

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

The following table sets forth as of February 13, 2015 the beneficial ownership of common units of HEP held by:

- each person known to us to be a beneficial owner of 5% or more of the common units;
- directors of HLS, the general partner of our general partner;
- each Named Executive Officer of HLS; and
- all directors and executive officers of HLS as a group.

The percentage of common units noted below is based on 58,657,048 common units outstanding as of February 13, 2015. Unless otherwise indicated, the address for each unitholder shall be c/o Holly Energy Partners, L.P., 2828 N. Harwood, Suite 1300, Dallas, Texas 75201-1507.

Beneficial ownership of the common units of HEP is determined in accordance with SEC rules and regulations and generally includes voting power or investment power with respect to the common units held. Except as indicated and subject to applicable community property laws, to our knowledge the persons named in the tables below have sole voting and investment power with respect to all common units shown as beneficially owned by them.

Name of Beneficial Owner	Common Units	Percentage of Outstanding Common Units
HollyFrontier Corporation (1)	22,380,030	39.39%
Oppenheimer Funds, Inc. (2)	7,074,413	12.06%
Tortoise Capital Advisors, L.L.C. (3)	3,145,664	5.36%
Energy Income Partners, LLC (4)	2,969,314	5.06%
Matthew P. Clifton (5)(6)(8)	271,011	*
P. Dean Ridenour (6)	66,120	*
Bruce R. Shaw (7)(8)	51,062	*
Charles M. Darling, IV (6)(8)(9)	44,048	*
Mark T. Cunningham (7)	39,668	*
Jerry W. Pinkerton (6)	26,748	*
William J. Gray (6)(8)	23,546	*
James G. Townsend (6)(8)	20,732	*
William P. Stengel (6)(10)	14,324	*
Douglas S. Aron (8)(11)	7,340	*
Michael C. Jennings (8)	7,000	*
Denise C. McWatters (8)	4,881	*
All directors and executive officers as group (12 persons) (12)	576,480	*

* Less than 1%

(1) HollyFrontier Corporation directly holds 5,006 common units over which it has sole voting and dispositive power and 22,375,024 common units over which it has shared voting and dispositive power. HollyFrontier Corporation is the record holder of 140,000 common units as nominee for Navajo Pipeline Co., L.P. The 22,375,024 common units over which HollyFrontier Corporation has shared voting and dispositive power are held as follows: Holly Logistics Limited LLC directly holds 21,615,230 common units; HollyFrontier Holdings LLC directly holds 184,000 common units; Navajo Pipeline Co., L.P. directly holds 254,880 common units; and other wholly-owned subsidiaries of HollyFrontier Corporation directly own 180,114

common units. HollyFrontier Corporation is the ultimate parent company of each such entity and may therefore be deemed to beneficially own the units held by each such entity. HollyFrontier Corporation files information with or furnishes information to, the Securities and Exchange Commission pursuant to the information requirements of the Exchange Act. The percentage of outstanding common units owned includes a 2% general partner interest held by HEP Logistics Holdings, L.P. which is HEP's general partner and an indirect wholly-owned subsidiary of HollyFrontier Corporation. The address of HollyFrontier Corporation is 2828 N. Harwood, Suite 1300, Dallas, Texas 75201-1507.

(2) Oppenheimer Funds, Inc. filed with the SEC a Schedule 13G/A, dated February 5, 2015. Based on this Schedule 13G/A, Oppenheimer Funds, Inc. has shared voting power and shared dispositive power with respect to 7,074,413 units. The address of Oppenheimer Funds, Inc. is Two World Financial Center, 225 Liberty Street, New York, NY 10281.

(3) Tortoise Capital Advisors, L.L.C. filed with the SEC a Schedule 13G/A on February 10, 2015. Based on this Schedule 13G/A, Tortoise Capital Advisors, L.L.C. reported that it had sole voting power and sole dispositive power with respect to 68 units and shared voting power and shared dispositive power with respect to 3,145,596 units. The address of Tortoise Capital Advisors, L.L.C. is 11550 Ash St., Suite 300, Leawood, KS 66211.

(4) Based on the Schedule 13G filed with the Securities and Exchange Commission on February 17, 2015 by Energy Income Partners, LLC, James J. Murchie, Eva Pao, Linda A. Longville and Saul Ballesteros. James J. Murchie and Eva Pao are the Portfolio Managers with respect to the portfolios managed by Energy Income Partners, LLC. Linda A. Longville and Saul Ballesteros are control persons of Energy Income Partners, LLC. Each of the foregoing report shared voting and dispositive power over 2,969,314 common units. The address of each of the foregoing is 49 Riverside Avenue, Westport, Connecticut 06880.

(5) The number does not include performance units held by Mr. Clifton, which were granted to him while he was an employee of HLS.

(6) The number reported includes 2,995 restricted units for which the non-employee director has sole voting power but no dispositive power.

(7) The number reported includes restricted units for which the executive has sole voting power but no dispositive power, as follows: Mr. Shaw (19,056 units) and Mr. Cunningham (12,912 units). The number does not include performance units held by Mr. Shaw and Mr. Cunningham.

(8) Messrs. Jennings, Aron Clifton, Townsend, Darling, Shaw and Gray and Ms. McWatters each own common stock of HFC. Each of these individuals own common stock of HFC as set forth in the following table:

Name of Beneficial Owner	Number of Shares
Michael C. Jennings (a)	409,238
Douglas S. Aron (a)	155,327
Matthew P. Clifton	111,986
Denise C. McWatters (a)	33,059
James G. Townsend (b)	23,779
Charles M. Darling, IV (c)	7,500
Bruce R. Shaw	7,044
William J. Gray	4,224
Total	752,157

(a) The number reported includes shares of HFC restricted stock for which the executive officer has sole voting power but no dispositive power, as follows: Mr. Jennings (132,802 shares), Mr. Aron (36,859 shares), and Ms. McWatters (14,793 shares). The number does not include unvested performance share units.

(b) The number reported represents shares of HFC common stock owned by a trust whose beneficiaries are Mr. Townsend's children and grandchildren and for which Mr. Townsend and his spouse serve as trustees.

(c)

Mr. Darling is an owner and general manager of DQ Holdings, L.L.C. The number reported represents shares of HFC common stock owned by DQ Holdings, L.L.C. for which Mr. Darling has shared voting and dispositive power. Mr. Darling disclaims beneficial ownership as to the shares of HFC common stock held by DQ Holdings, L.L.C. except to the extent of his pecuniary interest therein.

As of February 13, 2015, there were 195,775,664 shares of HFC common stock outstanding. Each of Messrs. Jennings, Aron Clifton, Townsend, Darling, Shaw and Gray and Ms. McWatters own less than 1% of the outstanding common stock of HFC.
HFC.

(9) Mr. Darling is an owner and general manager of DQ Holdings, L.L.C. The number reported includes 22,400 common units owned by DQ Holdings, L.L.C. for which Mr. Darling has shared voting and dispositive power. Mr. Darling disclaims beneficial ownership as to the common units held by DQ Holdings, L.L.C. except to the extent of his pecuniary interest therein.

(10) The number reported includes 1,000 common units owned by Mr. Stengel's spouse for which Mr. Stengel shares voting and disposition power. Mr. Stengel disclaims beneficial ownership as to the common units owned by his spouse.

(11) Includes 420 common units held by Mr. Aron as custodian for his son in an account under the Uniform Transfer to Minors Act and 420 common units held by Mr. Aron as custodian for his daughter in an account under the Uniform Transfer to Minors Act. Mr. Aron disclaims beneficial ownership of these common units.

(12) The number reported includes 31,968 restricted units held by executive officers for which they have sole voting power but no dispositive power and 20,965 restricted units held by non-employee directors for which they have sole voting power but no dispositive power. The number reported also includes 22,400 common units as to which Mr. Darling disclaims beneficial ownership, except to the extent of his pecuniary interest therein, 1,000 common units for which Mr. Stengel disclaims beneficial ownership, and 840 common units for which Mr. Aron disclaims beneficial ownership.

Equity Compensation Plan Table

The following table summarizes information about our equity compensation plans as of December 31, 2014:

Plan Category (1)	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders (2)	101,951 (3)	—	1,526,406
Equity compensation plans not approved by security holders	—	—	—
Total	101,951	—	1,526,406

(1) All stock-based compensation plans are described in Note 6 to our consolidated financial statements for the fiscal year ended December 31, 2014.

(2) On April 25, 2012, at a Special Meeting of the Unitholders of the Partnership, the unitholders approved the Amended and Restated Long-Term Incentive Plan, which, among other things, provided for an increase in the maximum number of common units reserved for delivery with respect to awards under the Long-Term Incentive Plan to 2,500,000 common units (as adjusted to reflect the two-for-one common unit split that occurred on January 16, 2013). All securities reported as available for future issuances are available from the additional common units approved by unitholders under the Amended and Restated Long-Term Incentive Plan. At the time the Long-Term Incentive Plan was originally adopted in 2004, it was not required to be approved by the Partnership's unitholders.

(3)

Represents units subject to performance units granted to (a) Mr. Clifton in March 2013 assuming a maximum payout level of 200% at the time of vesting, (b) Messrs. Shaw and Cunningham in March 2013, November 2013 and October 2014 assuming a maximum payout level of 150% at the time of vesting, and (c) Mr. Kenneth Norwood, our Vice President and Controller, in October 2014 assuming a maximum payout level of 150% at the time of vesting. If the performance units granted to Messrs. Clifton, Shaw, Cunningham and Norwood in 2013 and 2014 are paid at target, 59,809 units would be issued upon the vesting of such performance units.

For more information about our Amended and Restated Long-Term Incentive Plan, refer to Item 11, "Executive Compensation - Overview of 2014 Executive Compensation Components and Decisions - Long-Term Incentive Equity Compensation."

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

Our general partner and its affiliates own 22,380,030 of our common units representing a 37% limited partner interest in us. In addition, the general partner owns a 2% general partner interest in us. Transactions with our general partner are discussed later in this section.

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 22,380,030 of the 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 HFC or its affiliates an administrative fee, $2.3 million per year in 2014 and currently $2.4 million, for the provision of various general and administrative services for our benefit. The administrative fee may increase if we make an acquisition that requires an increase in the level of general and administrative services that we receive from HFC 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 HFC who provide services to us on behalf of HLS. Finally, HLS is required to reimburse HFC for our benefit pursuant to the secondment arrangement for the wages, benefits, and other costs of HFC employees seconded to HLS to perform services at certain of our pipelines and tankage assets. Please read "Omnibus Agreement" and "Secondment Arrangement" below. Our general partner determines the amount of these expenses.
Withdrawal or removal of our general partner	If our general partner withdraws or is removed, its general partner interest and its incentive distribution rights will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests.
Liquidation stage	
Liquidation	Upon our liquidation, the partners, including our general partner, will be entitled to receive liquidating distributions according to their particular capital account balances.

OMNIBUS AGREEMENT

Our Omnibus Agreement with HFC and our general partner that addresses the following matters:

- our obligation to pay HFC an annual administrative fee, in the amount of $2.3 million in 2014 and $2.4 currently, for the provision by HFC of certain general and administrative services;
- HFC's and its affiliates' agreement not to compete with us under certain circumstances and our right to notice of, and right of first offer to purchase, certain logistics assets constructed by HFC and acquired as part of an acquisition by HFC of refining assets;
- an indemnity by HFC for certain potential environmental liabilities;
- our obligation to indemnify HFC for environmental liabilities related to our assets existing on the date of our initial public offering to the extent HFC is not required to indemnify us; and
- HFC's right of first refusal to purchase our assets that serve HFC's refineries.

Payment of general and administrative services fee
Under the Omnibus Agreement we pay HFC an annual administrative fee, in the amount of $2.3 million in 2014 and $2.4 million currently, for the provision of various general and administrative services for our benefit. Our general partner may agree to further increases in connection with expansions of our operations through the acquisition or construction of new assets or businesses.

The $2.3 million fee includes expenses incurred by HFC 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 HFC who perform services for us on behalf 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 HFC. We also reimburse HFC and its affiliates for direct general and administrative expenses they incur on our behalf.

Noncompetition
HFC and its affiliates have agreed, for so long as HFC controls our general partner, not to engage in, whether by acquisition or otherwise, the business of operating crude oil pipelines or terminals, refined product 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 HFC or any of its affiliates at the time of the closing of our initial public offering;
- any business conducted by HFC with the approval of our general partner;
- any business or asset that HFC or any of its affiliates acquires or constructs that has a fair market value or construction cost of less than $5 million; and
- any business or asset that HFC or any of its affiliates acquires or constructs that has a fair market value or construction cost of $5 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.

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

Indemnification
Under the Omnibus Agreement, certain transportation agreements and purchase agreements with HFC, HFC has agreed to indemnify us, subject to certain limitations, for environmental noncompliance and remediation liabilities associated with certain assets transferred to us from HFC and occurring or existing prior to the date of such transfers. The Omnibus Agreement provides environmental indemnification with respect to certain transferred assets of up to $15 million through 2021, plus additional indemnification of $2.5 million through 2015 and up to $7.5 million through 2023. HFC's indemnification obligations under the Omnibus Agreement do not apply to (i) the Tulsa West loading racks acquired in August 2009, (ii) the 16-inch intermediate pipeline acquired in June 2009, (iii) the Roadrunner Pipeline, (iv) the Beeson Pipeline, (v) the logistics and storage assets acquired from Sinclair in December 2009, (vi) the Tulsa East storage tanks and loading racks acquired in March 2010, (vii) the UNEV Pipeline, (viii) the Tulsa Interconnecting Pipelines, (ix) the Malaga Pipeline System or (x) Tank 647 at the El Dorado Refinery. For the Tulsa loading racks acquired from HFC in August 2009 and the Tulsa logistics and storage assets acquired from Sinclair in December 2009, HFC agreed to indemnify us for environmental liabilities arising from our pre-ownership operations of these assets. Additionally, HFC agreed to indemnify us for any liabilities arising from its operation of our loading racks located at HFC's Tulsa refinery west facility.

We have indemnified HFC and its affiliates against environmental liabilities related to events that occur on our assets after the date we acquired such asset.

Right of first refusal to purchase our assets

The Omnibus Agreement also contains the terms under which HFC 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 HFC's refineries, we must give written notice of the terms of such proposed sale to HFC. 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. HFC 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.

SECONDMENT ARRANGEMENT

Under HLS's secondment arrangement with HFC, effective January 1, 2015, certain employees of HFC are seconded to HLS, our general partner's general partner, to provide operational and maintenance services with respect to certain of our pipelines and terminals at the Cheyenne and El Dorado refineries, including routine operational and maintenance activities. During their period of secondment, the seconded employees are under the management and supervision of HLS. HLS is required to reimburse HFC for our benefit for the cost of the seconded employees, including their wages and benefits, based on the percentage of the employee's time spent working for HLS. The secondment arrangement continues until HLS's mutual agreement with HFC to terminate.

PIPELINE AND TERMINAL, TANKAGE AND THROUGHPUT AGREEMENTS

We serve HFC's refineries under long-term pipeline and terminal, tankage and throughput agreements expiring in 2019 to 2026. Under these agreements, HFC agreed to transport, store and throughput volumes of refined product and crude oil on our pipelines and terminal, tankage and loading rack facilities that result in minimum annual payments to us. These minimum annual payments or revenues are subject to annual tariff rate adjustments on July 1, based on the Producer Price Index ("PPI") or the Federal Energy Regulatory Commission ("FERC") index. As of December 31, 2014, these agreements with HFC will result in minimum payments to us of $231.6 million.

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

SUMMARY OF TRANSACTIONS WITH HFC

- UNEV Pipeline Interest Acquisition - On July 12, 2012, we acquired HFC's 75% interest in UNEV. We paid consideration consisting of $260.9 million in cash and 2,059,800 of our common units.

- See "2012 Acquisition" under Item 1, "Business" of this Annual Report on Form 10-K for additional information on these acquisitions from HFC.

- Revenues received from HFC were $275.2 million, $252.4 million and $245.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

- HFC charged us for general and administrative services under the Omnibus Agreement of $2.3 million for each of the years ended December 31, 2014, 2013 and 2012, respectively.

- We reimbursed HFC for costs of employees supporting our operations of $38.9 million, $34.6 million and $31.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

- HFC reimbursed us $16.8 million, $21.6 million and $13.4 million for certain reimbursable costs and capital projects for the years ended December 31, 2014, 2013 and 2012, respectively.

- We distributed $80.5 million, $71.4 million and $64.0 million for the years ended December 31, 2014, 2013 and 2012, respectively, to HFC as regular distributions on its common units, subordinated units and general partner interest, including general partner incentive distributions.

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 supervisor who does not have a conflict of interest, and the supervisor must report in writing on the action taken to the General Counsel. 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, 2014, 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.

See Item 10 for a discussion of “Director Independence.”

Item 14. Principal Accounting Fees and Services

The audit committee of the board of directors of HLS selected Ernst & Young LLP, Independent Registered Public Accounting Firm, to audit the books, records and accounts of the HEP for the 2014 calendar year.
Fees paid to Ernst & Young LLP for 2014 and 2013 are as follows:

	2014	2013
Audit Fees [(1)]	$610,000	$669,000
Tax Fees	184,000	287,000
Total	$794,000	$956,000

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

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

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report
(1) Index to Consolidated Financial Statements

	Page in Form 10-K
Report of Independent Registered Public Accounting Firm	57
Consolidated Balance Sheets at December 31, 2014 and 2013	58
Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012	59
Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	60
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	61
Consolidated Statements of Equity for the years ended December 31, 2014, 2013 and 2012	62
Notes to Consolidated Financial Statements	63

(2) Index to Consolidated Financial Statement Schedules
All schedules are omitted since the required information is not present in or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

(3) Exhibits
See Index to Exhibits on pages 133 to 139.

HOLLY ENERGY PARTNERS, L.P.
SIGNATURES
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOLLY ENERGY PARTNERS, L.P.
(Registrant)

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

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

Date: February 25, 2015 /s/ Michael C. Jennings

Michael C. Jennings
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 25, 2015	/s/ Michael C. Jennings Michael C. Jennings Chief Executive Officer and Director
Date: February 25, 2015	/s/ Bruce R. Shaw Bruce R. Shaw President
Date: February 25, 2015	/s/ Douglas S. Aron Douglas S. Aron Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: February 25, 2015	/s/ Kenneth P. Norwood Kenneth P. Norwood Vice President and Controller (Principal Accounting Officer)
Date: February 25, 2015	/s/ Matthew P. Clifton Matthew P. Clifton Chairman of the Board
Date: February 25, 2015	/s/ Charles M. Darling, IV Charles M. Darling, IV Director
Date: February 25, 2015	/s/ William J. Gray William J. Gray Director
Date: February 25, 2015	/s/ Jerry W. Pinkerton Jerry W. Pinkerton Director
Date: February 25, 2015	/s/ P. Dean Ridenour P. Dean Ridenour Director
Date: February 25, 2015	/s/ William P. Stengel William P. Stengel Director
Date: February 25, 2015	/s/ James G. Townsend James G. Townsend Director

Exhibit Index

Exhibit Number	Description
2.1	Purchase and Sale Agreement, dated February 25, 2008, between Holly Corporation, Navajo Pipeline Co., L.P., Navajo Refining Company, L.L.C., Woods Cross Refining Company, L.L.C., Holly Energy Partners, L.P., Holly Energy Partners - Operating, L.P., HEP Pipeline, L.L.C. and HEP Woods Cross, L.L.C. (incorporated by reference to Exhibit 2.1 of Registrant's Form 8-K Current Report dated February 27, 2008, File No. 001-32225).
2.2	Asset Sale and Purchase Agreement, dated October 19, 2009, between Holly Refining & Marketing - Tulsa LLC, HEP Tulsa LLC and Sinclair Tulsa Refining Company (incorporated by reference to Exhibit 2.1 of Registrant's Form 8-K Current Report dated October 21, 2009, File No. 001-32225).
3.1	First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P. (incorporated by reference to Exhibit 3.1 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 001-32225).
3.2	Amendment No. 1 to the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated February 28, 2005 (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report dated February 28, 2005, File No. 001-32225).
3.3	Amendment No. 2 to the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated July 6, 2005 (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report dated July 6, 2005, File No. 001-32225).
3.4	Amendment No. 3 to the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated April 11, 2008 (incorporated by reference to Exhibit 4.1 of Registrant's Form 8-K Current Report dated April 15, 2008, File No. 001-32225).
3.5	Limited Partial Waiver of Incentive Distribution Rights under the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated July 12, 2012 (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report dated July 12, 2012, File No. 001-32225).
3.6	Amendment No. 4 to the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated January 16, 2013 (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report dated January 16, 2013, File No. 001-32225).
3.7	First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners - Operating Company, L.P. (incorporated by reference to Exhibit 3.2 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 001-32225).
3.8	First Amended and Restated Agreement of Limited Partnership of HEP Logistics Holdings, L.P. (incorporated by reference to Exhibit 3.4 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 001-32225).
3.9	First Amended and Restated Limited Liability Company Agreement of Holly Logistic Services, L.L.C. (incorporated by reference to Exhibit 3.5 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 001-32225).
3.10	Amendment No. 1 to the First Amended and Restated Limited Liability Company Agreement of Holly Logistic Services, L.L.C., dated April 27, 2011 (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report dated May 3, 2011, File No. 001-32225).
3.11	First Amended and Restated Limited Liability Company Agreement of HEP Logistics GP, L.L.C. (incorporated by reference to Exhibit 3.6 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 001-32225).
4.1	Indenture, dated March 10, 2010, among Holly Energy Partners, L.P., Holly Energy Finance Corp., the other Guarantors and U.S. Bank National Association, providing for the issuance of 8.25% Senior Notes due 2018 (incorporated by reference to Exhibit 4.1 of Registrant's Form 8-K Current Report dated March 11, 2010, File No. 001-32225).

4.2	First Supplemental Indenture, dated April 14, 2010, among Holly Energy Storage-Tulsa LLC, Holly Energy Storage-Lovington LLC, Holly Energy Partners, L.P., Holly Energy Finance Corp., the other Guarantors and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2010, File No. 001-32225).
4.3	Second Supplemental Indenture, dated June 4, 2010, among HEP Operations LLC, Holly Energy Partners, L.P., Holly Energy Finance Corp., the other Guarantors and U.S. Bank National Association (incorporated by reference to Exhibit 4.4 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2010, File No. 001-32225).
4.4	Third Supplemental Indenture, dated December 29, 2011, among Cheyenne Logistics LLC, El Dorado Logistics LLC, Holly Energy Partners, L.P., Holly Energy Finance Corp., the other Guarantors and U.S. Bank National Association (incorporated by reference to Exhibit 4.16 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2011, File No. 001-32225)

4.5	Fourth Supplemental Indenture, dated August 6, 2012, among HEP UNEV Holdings LLC, HEP UNEV Pipeline LLC, Holly Energy Partners, L.P., Holly Energy Finance Corp., the other Guarantors and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to Registrant's Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2012, File No. 001-32225).
4.6	Indenture, dated March 12, 2012, among Holly Energy Partners, L.P., Holly Energy Finance Corp., the other Guarantors and U.S. Bank National Association, providing for the issuance of 6.50% Senior Notes due 2020 (incorporated by reference to Exhibit 4.1 of Registrant's Form 8-K Current Report dated March 12, 2012, File No. 001-32225).
4.7	First Supplemental Indenture, dated August 6, 2012, among HEP UNEV Holdings LLC, HEP UNEV Pipeline LLC, Holly Energy Partners, L.P., Holly Energy Finance Corp., the other Guarantors and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2012, File No. 001-32225).
10.1	Mortgage, Line of Credit Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K Current Report dated March 6, 2008, File No. 001-32225).
10.2	Mortgage, Line of Credit Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.3 of Registrant's Form 8-K Current Report dated March 6, 2008, File No. 001-32225).
10.3	Mortgage, Line of Credit Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.4 of Registrant's Form 8-K Current Report dated March 6, 2008, File No. 001-32225).
10.4	Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.5 of Registrant's Form 8-K Current Report dated March 6, 2008, File No. 001-32225).
10.5	Mortgage and Deed of Trust, dated February 29, 2008, by HEP Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.6 of Registrant's Form 8-K Current Report dated March 6, 2008, File No. 001-32225).
10.6	Fee and Leasehold Deed of Trust, dated February 29, 2008, by HEP Woods Cross, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.7 of Registrant's Form 8-K Current Report dated March 6, 2008, File No. 001-32225).
10.7	Second Amended and Restated Credit Agreement, dated February 14, 2011, among Holly Energy Partners - Operating, L.P., Wells Fargo Bank, N.A., as administrative agent and issuing bank, Union Bank, N.A., as syndication agent, BBVA Compass Bank and U.S. Bank N.A., as co-documentation agents and certain other lenders (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated February 18, 2011, File No. 001-32225).
10.8	Agreement and Amendment No. 1 to Second Amended and Restated Credit Agreement, dated February 3, 2012, among Holly Energy Partners - Operating, L.P., certain of its subsidiaries acting as guarantors, Wells Fargo Bank, N.A., as administrative agent, an issuing bank and a lender and certain other lenders party thereto (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated February 9, 2012, File No. 001-32225).
10.9	Agreement and Amendment No. 2 to Second Amended and Restated Credit Agreement, dated June 29, 2012, among Holly Energy Partners - Operating, L.P., certain of its subsidiaries acting as guarantors, Wells Fargo Bank, N.A., as administrative agent, an issuing bank and lender and certain other lenders party thereto (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated June 29, 2012, File No. 001-32225).
10.10	Amendment No. 3 to Second Amended and Restated Credit Agreement and Amendment No. 1 to Second Amended and Restated Security Agreement, dated November 22, 2013, Holly Energy Partners - Operating, L.P., certain of its subsidiaries acting as guarantors, Wells Fargo Bank, N.A., as administrative agent, an issuing bank and lender and certain other lenders party thereto (incorporated by reference to Exhibit 10.1 of

	Registrant's Form 8-K Current Report dated November 26, 2013, File No. 001-32225).
10.11	Pipelines and Terminals Agreement, dated February 28, 2005, between Holly Energy Partners, L.P. and ALON USA, LP (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated February 28, 2005, File No. 001-32225).
10.12	First Amendment to Pipelines and Terminals Agreement between Holly Energy Partners, L.P. and ALON USA, LP, dated September 1, 2008 (incorporated by reference to Exhibit 10.4 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2011, File No. 001-32225).
10.13	Second Amendment to Pipelines and Terminals Agreement between Holly Energy Partners, L.P. and ALON USA, LP, dated March 1, 2011 (incorporated by reference to Exhibit 10.5 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2011, File No. 001-32225).
10.14	Third Amendment to Pipelines and Terminals Agreement between Holly Energy Partners, L.P. and ALON USA, LP, dated June 6, 2011 (incorporated by reference to Exhibit 10.6 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2011, File No. 001-32225).

10.15	Fourth Amendment to Pipelines and Terminals Agreement between Holly Energy Partners, L.P. and ALON USA, LP, dated October 6, 2014 (incorporated by reference to Exhibit 10.3 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2014, File No. 001-32225).
10.16	First Letter Agreement with respect to Pipelines and Terminals Agreement between Holly Energy Partners, L.P. and ALON USA, LP, dated January 25, 2005 (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2011, File No. 001-32225).
10.17	Second Letter Agreement with respect to Pipelines and Terminals Agreement between Holly Energy Partners, L.P. and ALON USA, LP, dated June 29, 2007 (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2011, File No. 001-32225).
10.18	Third Letter Agreement with respect to Pipelines and Terminals Agreement between Holly Energy Partners, L.P. and ALON USA, LP, dated April 1, 2011 (incorporated by reference to Exhibit 10.3 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2011, File No. 001-32225).
10.19	Corrected Version dated October 10, 2007 of Amendment and Supplement to Pipeline Lease Agreement effective August 31, 2007 between HEP Pipeline Assets, Limited Partnership and Alon USA, LP (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated October 16, 2007, File No. 001-32225)
10.20	LLC Interest Purchase Agreement, dated June 1, 2009, among Holly Corporation, Navajo Pipeline Co., L.P. and Holly Energy Partners - Operating, L.P. (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated June 5, 2009, File No. 001-32225).
10.21	Amended and Restated Intermediate Pipelines Agreement, dated June 1, 2009, among Holly Corporation, Navajo Refining Company, L.L.C., Holly Energy Partners, L.P., Holly Energy Partners - Operating, L.P., HEP Pipeline, L.L.C., Lovington-Artesia, L.L.C., HEP Logistics Holdings, L.P., Holly Logistic Services, L.L.C. and HEP Logistics GP, L.L.C. (incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K Current Report dated June 5, 2009, File No. 001-32225).
10.22	Amendment to Amended and Restated Intermediate Pipelines Agreement, dated December 9, 2010, among Navajo Refining Company, L.L.C., Holly Energy Partners, L.P., Holly Energy Partners - Operating, L.P., HEP Pipeline, L.L.C., Lovington-Artesia, L.L.C., HEP Logistics Holdings, L.P., Holly Logistic Services, L.L.C. and HEP Logistics GP, L.L.C. (incorporated by reference to Exhibit 10.23 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2010, File No. 001-32225).
10.23	Assignment and Assumption Agreement (Amended and Restated Intermediate Pipelines Agreement), effective January 1, 2011, between Navajo Refining Company, L.L.C. and Holly Refining & Marketing Company LLC (incorporated by reference to Exhibit 10.24 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2010, File No. 001-32225).
10.24	Mortgage, Line of Credit Mortgage and Deed of Trust, dated June 1, 2009, by Lovington-Artesia, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.4 of Registrant's Form 8-K Current Report dated June 5, 2009, File No. 001-32225).
10.25	Asset Purchase Agreement, dated August 1, 2009, between Holly Refining & Marketing - Tulsa LLC and HEP Tulsa LLC (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated August 6, 2009, File No. 001-32225).
10.26	Tulsa Equipment and Throughput Agreement, dated August 1, 2009, between Holly Refining & Marketing - Tulsa LLC and HEP Tulsa LLC (incorporated by reference to Exhibit 10.3 of Registrant's Form 8-K Current Report dated August 6, 2009, File No. 001-32225).
10.27	Amendment to Tulsa Equipment and Throughput Agreement, dated December 9, 2010, among Holly Refining & Marketing - Tulsa LLC and HEP Tulsa LLC (incorporated by reference to Exhibit 10.28 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2010, File No. 001-32225).
10.28	

	Assignment and Assumption Agreement (Tulsa Equipment and Throughput Agreement), effective January 1, 2011, between Holly Refining & Marketing - Tulsa, LLC and Holly Refining & Marketing Company LLC (incorporated by reference to Exhibit 10.29 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2010, File No. 001-32225).
10.29	Tulsa Purchase Option Agreement, dated August 1, 2009, between Holly Refining & Marketing - Tulsa LLC and HEP Tulsa LLC (incorporated by reference to Exhibit 10.4 of Registrant's Form 8-K Current Report dated August 6, 2009, File No. 001-32225).
10.30	LLC Interest Purchase Agreement, dated December 1, 2009, among Holly Corporation, Navajo Pipeline Co., L.P. and Holly Energy Partners - Operating, L.P. (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated December 7, 2009, File No. 001-32225).
10.31	Asset Purchase Agreement, dated December 1, 2009, between Holly Corporation, Navajo Pipeline Co., L.P. and HEP Pipeline, L.L.C. (incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K Current Report dated December 7, 2009, File No. 001-32225).
10.32	Pipeline Throughput Agreement, dated December 1, 2009, between Navajo Refining Company, L.L.C. and Holly Energy Partners - Operating, L.P. (incorporated by reference to Exhibit 10.4 of Registrant's Form 8-K Current Report dated December 7, 2009, File No. 001-32225).

10.33	Assignment and Assumption Agreement (Pipeline Throughput Agreement (Roadrunner)), effective January 1, 2011, between Navajo Refining Company, L.L.C. and Holly Refining & Marketing Company LLC (incorporated by reference to Exhibit 10.34 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2010, File No. 001-32225).
10.34	Form of Mortgage, Line of Credit Mortgage and Deed of Trust, to be entered into by HEP Pipeline L.L.C. and Holly Energy Partners, L.P. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.5 of Registrant's Form 8-K Current Report dated December 7, 2009, File No. 001-32225).
10.35	Form of Mortgage and Deed of Trust, to be entered into by Roadrunner Pipeline, L.L.C for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.6 of Registrant's Form 8-K Current Report dated December 7, 2009, File No. 001-32225).
10.36	Form of Mortgage, Line of Credit Mortgage and Deed of Trust, to be entered into by Roadrunner Pipeline, L.L.C. for the benefit of Holly Corporation (incorporated by reference to Exhibit 10.7 of Registrant's Form 8-K Current Report dated December 7, 2009, File No. 001-32225).
10.37	Second Amended and Restated Crude Pipeline and Tankage Agreement, dated July 16, 2013, among Navajo Refining Company, L.L.C., Holly Refining & Marketing Company - Woods Cross LLC, HollyFrontier Refining & Marketing LLC, Holly Energy Partners-Operating, L.P., HEP Pipeline, LLC and HEP Woods Cross, L.L.C. (incorporated by reference to Exhibit 10.3 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2013, File No. 001-32225).
10.38	Amended and Restated Refined Product Pipelines and Terminals Agreement, entered into on December 1, 2009, effective February 1, 2009, among Navajo Refining Company, L.L.C., Holly Refining & Marketing Company - Woods Cross, Holly Energy Partners - Operating, L.P., HEP Pipeline Assets, Limited Partnership, HEP Pipeline, LLC, HEP Refining Assets, L.P., HEP Refining, L.L.C., HEP Mountain Home, L.L.C. and HEP Woods Cross, L.L.C. (incorporated by reference to Exhibit 10.9 of Registrant's Form 8-K Current Report dated December 7, 2009, File No. 001-32225).
10.39	Assignment and Assumption Agreement (Amended and Restated Refined Product Pipelines and Terminals Agreement), effective January 1, 2011, among Navajo Refining Company, L.L.C., Holly Refining & Marketing-Woods Cross and Holly Refining & Marketing Company LLC (incorporated by reference to Exhibit 10.40 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2010, File No. 001-32225).
10.40	First Amendment to Amended and Restated Refined Product Pipelines and Terminals Agreement, entered into on November 7, 2013, effective September 30, 2013, among HollyFrontier Refining & Marketing LLC, Holly Energy Partners - Operating, L.P., HEP Pipeline Assets, Limited Partnership, HEP Pipeline, LLC, HEP Refining Assets, L.P., HEP Refining, L.L.C., HEP Mountain Home, L.L.C. and HEP Woods Cross, L.L.C. (incorporated by reference to Exhibit 10.42 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2014, File No. 001-32225).
10.41	Second Amended and Restated Throughput Agreement (Tucson Terminal), dated September 19, 2013 to be effective June 1, 2013, by and among HollyFrontier Refining & Marketing LLC, HEP Refining, L.L.C., and Holly Energy Partners - Operating, L.P. (incorporated by reference to Exhibit 10.4 of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, File No. 001-32225).
10.42	Indemnification Proceeds and Payments Allocation Agreement, dated December 1, 2009, between Holly Refining & Marketing - Tulsa, LLC and HEP Tulsa LLC (incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K Current Report dated December 7, 2009, File No. 001-32225).
10.43	LLC Interest Purchase Agreement, dated March 31, 2010, among Holly Corporation, Holly Refining & Marketing-Tulsa, LLC, Lea Refining Company, HEP Tulsa LLC and HEP Refining, L.L.C. (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated April 6, 2010, File No. 001-32225).
10.44	Second Amended and Restated Pipelines, Tankage and Loading Rack Throughput Agreement, dated August 31, 2011, between Holly Refining and Marketing-Tulsa LLC, HEP Tulsa LLC and Holly Energy Storage - Tulsa LLC (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report

	dated September 1, 2011, File No. 001-32225).
10.45	Assignment and Assumption Agreement (First Amended and Restated Pipelines, Tankage and Loading Rack Throughput Agreement (Tulsa East)), effective January 1, 2011, between Holly Refining & Marketing-Tulsa, LLC and Holly Refining & Marketing Company LLC (incorporated by reference to Exhibit 10.45 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2010, File No. 001-32225).
10.46	Loading Rack Throughput Agreement (Lovington), dated March 31, 2010, between Navajo Refining Company, L.L.C. and Holly Energy Storage-Lovington LLC (incorporated by reference to Exhibit 10.3 of Registrant's Form 8-K Current Report dated April 6, 2010, File No. 001-32225).
10.47	First Amended and Restated Lease and Access Agreement (East Tulsa), dated March 31, 2010, between Holly Refining & Marketing-Tulsa, LLC, HEP Tulsa LLC and Holly Energy Storage-Tulsa LLC (incorporated by reference to Exhibit 10.5 of Registrant's Form 8-K Current Report dated April 6, 2010, File No. 001-32225).
10.48	Pipeline Systems Operating Agreement, dated February 8, 2010, among Navajo Refining Company, L.L.C., Lea Refining Company, Woods Cross Refining Company, L.L.C., Holly Refining & Marketing - Tulsa LLC and Holly Energy Partners-Operating, L.P. (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated February 9, 2010, File No. 001-32225).

10.49	First Amendment to Pipeline Systems Operating Agreement, dated March 31, 2010, among Navajo Refining Company, L.L.C., Lea Refining Company, Woods Cross Refining Company, L.L.C., Holly Refining & Marketing-Tulsa, LLC and Holly Energy Partners-Operating, L.P. (incorporated by reference to Exhibit 10.6 of Registrant's Form 8-K Current Report dated April 6, 2010, File No. 001-32225).
10.50	LLC Interest Purchase Agreement, dated November 9, 2011, among HollyFrontier Corporation, Frontier Refining LLC, Frontier El Dorado Refining LLC, Holly Energy Partners - Operating, L.P. and Holly Energy Partners, L.P. (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated November 10, 2011, File No. 001-32225).
10.51	First Amended and Restated Tankage, Loading Rack and Crude Oil Receiving Throughput Agreement (Cheyenne), dated January 11, 2012, effective November 1, 2011, between Frontier Refining LLC and Cheyenne Logistics LLC (incorporated by reference to Exhibit 10.54 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2011, File No. 001-32225).
10.52	First Amended and Restated Pipeline Delivery, Tankage and Loading Rack Throughput Agreement (El Dorado), dated January 11, 2012 effective November 1, 2011, between Frontier El Dorado Refining LLC and El Dorado Logistics LLC (incorporated by reference to Exhibit 10.55 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2011, File No. 001-32225).
10.53	Second Amended and Restated Pipeline Delivery, Tankage and Loading Rack Throughput Agreement (El Dorado), dated January 7, 2014, between Frontier El Dorado Refining LLC and El Dorado Logistics LLC (incorporated by reference to Exhibit 10.1 of Registrant's Annual Report on Form 8-K Current Report dated January 13, 2014, File No. 001-32225).
10.54	Eighth Amended and Restated Omnibus Agreement, dated July 16, 2013, among HollyFrontier Corporation, Holly Energy Partners, L.P. and certain of their respective subsidiaries (incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K Current Report dated July 22, 2013, File No. 001-32225).
10.55	Ninth Amended and Restated Omnibus Agreement, dated January 7, 2014, among HollyFrontier Corporation, Holly Energy Partners, L.P. and certain of their respective subsidiaries (incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K Current Report dated January 13, 2014, File No. 001-32225).
10.56	Tenth Amended and Restated Omnibus Agreement, dated September 26, 2014, by and among HollyFrontier Corporation, Holly Energy Partners, L.P. and certain of their respective subsidiaries (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed September 29, 2014, File No. 001-32225).
10.57	Lease and Access Agreement (Cheyenne), dated November 9, 2011, between Frontier Refining LLC and Cheyenne Logistics LLC (incorporated by reference to Exhibit 10.5 of Registrant's Form 8-K Current Report dated November 10, 2011, File No. 001-32225).
10.58	First Amendment to Lease and Access Agreement (Cheyenne), effective June 5, 2012, between Frontier Refining LLC and Cheyenne Logistics LLC (incorporated by reference to Exhibit 10.62 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2014, File No. 001-32225).
10.59	Lease and Access Agreement (El Dorado), dated November 9, 2011, between Frontier El Dorado Refining LLC and El Dorado Logistics LLC (incorporated by reference to Exhibit 10.6 of Registrant's Form 8-K Current Report dated November 10, 2011, File No. 001-32225).
10.60	First Amendment to Lease and Access Agreement (El Dorado), effective August 15, 2012, between Frontier El Dorado Refining LLC and El Dorado Logistics LLC (incorporated by reference to Exhibit 10.64 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2014, File No. 001-32225).
10.61	Second Amendment to Lease and Access Agreement (El Dorado), effective December 5, 2012, between Frontier El Dorado Refining LLC and El Dorado Logistics LLC (incorporated by reference to Exhibit 10.65 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2014, File No. 001-32225).

10.62	Third Amendment to Lease and Access Agreement (El Dorado), dated January 7, 2014, between Frontier El Dorado Refining LLC and El Dorado Logistics LLC (incorporated by reference to Exhibit 10.66 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2014, File No. 001-32225).
10.63	Mortgage, dated January 31, 2012, by Cheyenne Logistics LLC for the benefit of HollyFrontier Corporation (incorporated by reference to Exhibit 10.61 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2011, File No. 001-32225).
10.64	Mortgage and Deed of Trust, dated January 31, 2012, by El Dorado Logistics LLC for the benefit of HollyFrontier Corporation (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2012, File No. 001-32225).
10.65	Purchase Agreement, dated February 28, 2012, among Holly Energy Partners, L.P., Holly Energy Finance Corp., each of the guarantors party thereto and Citigroup Global Markets, Inc., UBS Securities LLC and Wells Fargo Securities, LLC, as representatives of the initial purchasers named therein (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated March 5, 2012, File No. 001-32225).
10.66	LLC Interest Purchase Agreement, dated July 12, 2012, among HollyFrontier Corporation, Holly Energy Partners, L.P and HEP UNEV Holdings LLC (incorporated by reference to Exhibit 10.5 of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, File No. 001-32225).

10.67	Amended and Restated Limited Liability Company Agreement of HEP UNEV Holdings LLC, dated July 12, 2012, among HEP UNEV Holdings LLC, Holly Energy Partners, L.P. and HollyFrontier Holdings LLC (incorporated by reference to Exhibit 10.7 of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, File No. 001-32225).
10.68	Transportation Services Agreement, dated July 16, 2013, between HollyFrontier Refining & Marketing LLC and Holly Energy Partners-Operating, L.P. (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated July 22, 2013, File No. 001-32225).
10.69	Amended and Restated Transportation Services Agreement, dated September 26, 2014, by and between HollyFrontier Refining & Marketing LLC and Holly Energy Partners-Operating, L.P. (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed September 29, 2014, File No. 001-32225).
10.70+	Holly Energy Partners, L.P. Long-Term Incentive Plan (as amended and restated effective February 10, 2012) (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report dated April 30, 2012, File No. 001-32225).
10.71+	First Amendment to the Holly Energy Partners, L.P. Long-Term Incentive Plan, effective January 16, 2013 (incorporated by reference to Exhibit 10.68 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2012, File No. 001-32225).
10.72+	Form of Restricted Unit Agreement (without Performance Vesting) (incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K Current Report dated August 4, 2005, File No. 001-32225).
10.73+	Form of Holly Energy Partners, L.P. Indemnification Agreement to be entered into with officers and directors of Holly Logistic Services, L.L.C. (incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K Current Report dated February 18, 2011, File No. 001-32225).
10.74+	HollyFrontier Corporation Executive Nonqualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.73 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2012, File No. 001-32225).
10.75+	Holly Energy Partners, L.P. Change in Control Agreement Policy (incorporated by reference to Exhibit 10.3 of Registrant's Form 8-K Current Report dated February 18, 2011, File No. 001-32225).
10.76+	Form of Change in Control Agreement (incorporated by reference to Exhibit 10.4 of Registrant's Form 8-K Current Report dated February 18, 2011, File No. 001-32225).
10.77+	Form of Performance Unit Agreement (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2010, File No. 001-32225).
10.78+	Amended and Restated Annual Incentive Plan (incorporated by reference to Exhibit 10.77 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2012, File No. 001-32225).
10.79+	Form of Performance Unit Agreement (Chairman) (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2013, File No. 001-32225).
10.80+	Form of Performance Unit Agreement (Executive) (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2013, File No. 001-32225).
10.81+	Form of Restricted Unit Agreement (Employee) (incorporated by reference to Exhibit 10.3 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2013, File No. 001-32225).
10.82+	Form of Notice of Grant of Restricted Units (Employee) (incorporated by reference to Exhibit 10.4 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2013, File No. 001-32225).
10.83+*	Form of Restricted Unit Agreement (Executive Chairman) (incorporated by reference to Exhibit 10.86 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2014, File No. 001-32225).
10.84+*	Form of Notice of Grant of Restricted Units (Executive Chairman) (incorporated by reference to Exhibit 10.87 of Registrant's Annual Report on Form 10-K for its fiscal year ended December 31, 2014, File No.

	001-32225).
10.85+	Form of Amended and Restated Restricted Unit Agreement (Chairman) (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2014, File No. 001-32225).
10.86+	Form of Amended and Restated Performance Unit Agreement (Chairman) (2012 Grant) (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2014, File No. 001-32225).
10.87+	Form of Amended and Restated Performance Unit Agreement (Chairman) (2013 Grant) (incorporated by reference to Exhibit 10.3 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2014, File No. 001-32225).
10.88+	Form of Notice of Grant of Restricted Units (Directors) (incorporated by reference to Exhibit 10.5 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2013, File No. 001-32225).
10.89+	Form of Notice of Grant of Restricted Units (Directors) (incorporated by reference to Exhibit 10.4 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2014, File No. 001-32225).
10.90+	Form of Restricted Unit Agreement (Directors) (incorporated by reference to Exhibit 10.6 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2013, File No. 001-32225).

10.91+	Form of Restricted Unit Agreement (Directors) (incorporated by reference to Exhibit 10.5 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2014, File No. 001-32225).
21.1*	Subsidiaries of Registrant.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
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.
101++	The following financial information from Holly Energy Partners, L.P.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statement of Partners’ Equity, and (vi) Notes to Consolidated Financial Statements.

* Filed herewith.
** Furnished herewith.
+ Constitutes management contracts or compensatory plans or arrangements.
++ Filed electronically herewith.