

HOLLY ENERGY PARTNERS LP
Form 10-Q
May 03, 2017

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-32225

HOLLY ENERGY PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-0833098 (I.R.S. Employer Identification No.)
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2828 N. Harwood, Suite 1300 Dallas, Texas (Address of principal executive offices) (214) 871-3555 (Registrant's telephone number, including area code)	75201 (Zip code)
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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of the registrant's outstanding common units at April 28, 2017 was 63,922,861.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain “forward-looking statements” within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under “Results of Operations” and “Liquidity and Capital Resources” in Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I are forward-looking statements.

Forward-looking statements use words such as “anticipate,” “project,” “expect,” “plan,” “goal,” “forecast,” “intend,” “should,” “could,” “believe,” “may,” and similar expressions and statements regarding our plans and objectives for future operations.

These statements are based on our beliefs and assumptions and those of our general partner using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although we and our general partner believe that such expectations reflected in such forward-looking statements are reasonable, neither we nor our general partner can give assurance that our expectations will prove to be correct. All statements concerning our expectations for future results of operations are based on forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Certain factors could cause actual results to differ materially from results anticipated in the forward-looking statements. These factors include, but are not limited to:

- risks and uncertainties with respect to the actual quantities of petroleum products and crude oil shipped on our pipelines and/or terminalled, stored or throughput in our terminals;
- the economic viability of HollyFrontier Corporation, Alon USA, Inc. and our other customers;
- the demand for refined petroleum products in markets we serve;
- our ability to purchase and integrate future acquired operations;
- our ability to complete previously announced or contemplated acquisitions;
- the availability and cost of additional debt and equity financing;
- the possibility of reductions in production or shutdowns at refineries utilizing our pipeline and terminal facilities;
- the effects of current and future government regulations and policies;
- our operational efficiency in carrying out routine operations and capital construction projects;
- the possibility of terrorist attacks and the consequences of any such attacks;
- general economic conditions; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. When considering forward-looking statements, you should keep in mind the known material risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2016, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in “Risk Factors.” All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOLLY ENERGY PARTNERS, L.P.

CONSOLIDATED BALANCE SHEETS

(In thousands, except unit data)

	March 31, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$7,007	\$3,657
Accounts receivable:		
Trade	10,111	7,846
Affiliates	35,634	42,562
	45,745	50,408
Prepaid and other current assets	3,170	2,888
Total current assets	55,922	56,953
Properties and equipment, net	1,320,981	1,328,395
Transportation agreements, net	65,118	66,856
Goodwill	256,498	256,498
Equity method investments	162,319	165,609
Other assets	9,297	9,926
Total assets	\$1,870,135	\$1,884,237
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$11,459	\$10,518
Affiliates	6,481	16,424
	17,940	26,942
Accrued interest	4,518	18,069
Deferred revenue	11,807	11,102
Accrued property taxes	5,407	5,397
Other current liabilities	2,779	3,225
Total current liabilities	42,451	64,735
Long-term debt	1,240,565	1,243,912
Other long-term liabilities	16,521	16,445
Deferred revenue	46,881	47,035
Class B unit	41,000	40,319
Equity:		
Partners' equity:		
Common unitholders (63,922,861 and 62,780,503 units issued and outstanding)	521,050	510,975

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at March 31, 2017 and December 31, 2016, respectively)

General partner interest (2% interest)	(131,678)	(132,832)
Accumulated other comprehensive income	154	91
Total partners' equity	389,526	378,234
Noncontrolling interest	93,191	93,557
Total equity	482,717	471,791
Total liabilities and equity	\$1,870,135	\$1,884,237

See accompanying notes.

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

	Three Months Ended March 31,	
	2017	2016 ⁽¹⁾
Revenues:		
Affiliates	\$89,025	\$82,846
Third parties	16,609	19,164
	105,634	102,010
Operating costs and expenses:		
Operations (exclusive of depreciation and amortization)	32,489	27,855
Depreciation and amortization	18,777	16,551
General and administrative	2,634	3,091
	53,900	47,497
Operating income	51,734	54,513
Other income (expense):		
Equity in earnings of equity method investments	1,840	2,765
Interest expense	(13,539)	(10,535)
Interest income	102	112
Loss on early extinguishment of debt	(12,225)	—
Gain (loss) on sale of assets and other	73	(8)
	(23,749)	(7,666)
Income before income taxes	27,985	46,847
State income tax expense	(106)	(95)
Net income	27,879	46,752
Allocation of net loss attributable to Predecessor	—	1,150
Allocation of net income attributable to noncontrolling interests	(2,316)	(4,927)
Net income attributable to the partners	25,563	42,975
General partner interest in net income attributable to the partners	(17,138)	(12,103)
Limited partners' interest in net income	\$8,425	\$30,872
Limited partners' per unit interest in earnings—basic and diluted	\$0.13	\$0.52
Weighted average limited partners' units outstanding	63,113	58,657

(1) Retrospectively adjusted as described in Note 1.

See accompanying notes.

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

	Three Months Ended March 31,	
	2017	2016 ⁽¹⁾
Net income	\$27,879	\$46,752
Other comprehensive income:		
Change in fair value of cash flow hedging instruments	76	(683)
Reclassification adjustment to net income on partial settlement of cash flow hedge	(13)	230
Other comprehensive income (loss)	63	(453)
Comprehensive income before noncontrolling interest	27,942	46,299
Allocation of net loss attributable to Predecessor	—	1,150
Allocation of comprehensive income to noncontrolling interests	(2,316)	(4,927)
Comprehensive income attributable to Holly Energy Partners	\$25,626	\$42,522

(1) Retrospectively adjusted as described in Note 1.

See accompanying notes.

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

	Three Months Ended March 31,	
	2017	2016 ⁽¹⁾
Cash flows from operating activities		
Net income	\$27,879	\$46,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,777	16,551
Gain on sale of assets	(58)	—
Amortization of deferred charges	770	593
Amortization of restricted and performance units	398	651
Earnings distributions greater (less) than income from equity investments	273	(365)
Loss on early extinguishment of debt	12,225	—
(Increase) decrease in operating assets:		
Accounts receivable—trade	375	657
Accounts receivable—affiliates	7,733	(637)
Prepaid and other current assets	(282)	(128)
Increase (decrease) in operating liabilities:		
Accounts payable—trade	(1,122)	(1,082)
Accounts payable—affiliates	(9,943)	(5,460)
Accrued interest	(13,551)	(4,780)
Deferred revenue	551	(4,588)
Accrued property taxes	9	343
Other current liabilities	(328)	(843)
Other, net	(106)	(295)
Net cash provided by operating activities	43,600	47,369
Cash flows from investing activities		
Additions to properties and equipment	(8,265)	(17,873)
Purchase of Woods Cross refinery processing units	—	(24,311)
Proceeds from sale of assets	424	