

HOLLY ENERGY PARTNERS LP
Form PRE 14A
March 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant ☐ Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
☐ **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
☐ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to §240.14a-12

HOLLY ENERGY PARTNERS, L.P.

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
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(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Holly Energy Partners, L.P.

2828 N. Harwood, Suite 1300

Dallas, Texas 75201

[], 2012

To our common unitholders:

You are cordially invited to attend a special meeting of the common unitholders of Holly Energy Partners, L.P. (the Partnership) to be held on [], 2012, at 8:30 a.m., Dallas, Texas time, at 2727 N. Harwood, 5th Floor, Dallas, Texas 75201. The board of directors of Holly Logistic Services, L.L.C. (the Company), the general partner of HEP Logistics Holdings, L.P. (the General Partner), our general partner, which we refer to as our board of directors, has called the special meeting. At this important meeting, you will be asked to consider and vote upon the following proposals:

a proposal (the LTIP Proposal) to approve an amendment and restatement of the Holly Energy Partners, L.P. Long-Term Incentive Plan (as it has been amended from time to time, the LTIP), which, among other things, provides for an increase in the maximum number of common units reserved and available for delivery with respect to awards under the LTIP to 1,250,000 common units; and

a proposal (the Adjournment Proposal) to approve the adjournment of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the LTIP Proposal.

Our board of directors has unanimously approved the amendment and restatement of the LTIP (the Restated LTIP). Our board of directors believes that the Restated LTIP is in the best interests of our unitholders and the Partnership and unanimously recommends that the common unitholders approve the Restated LTIP.

The LTIP currently permits us to deliver a maximum of 350,000 of our common units with respect to awards under the LTIP. As of December 31, 2011, awards for 289,396 common units had been delivered with respect to awards under the LTIP and 60,604 common units remained available for future delivery with respect to awards under the LTIP. We expect substantially all of these remaining common units will be delivered in 2012 and, therefore, we are seeking approval to provide for, among other things, additional common units for future delivery with respect to awards granted to employees, consultants, and directors of the Company or its affiliates under the LTIP. A copy of the Restated LTIP is attached to this proxy statement as Exhibit A.

Your vote is very important. Even if you plan to attend the special meeting, we urge you to promptly vote your common units electronically, via the Internet or by telephone, or by submitting your marked, signed and dated proxy card. You will retain the right to revoke your proxy at any time before the vote, or to vote your common units personally if you attend the special meeting. The proxy provides common unitholders the opportunity to vote on the LTIP Proposal and the Adjournment Proposal. Voting your common units electronically, via the Internet or by telephone, or by submitting a proxy card will not prevent you from attending the special meeting and voting in person. Please note, however, that if you hold your common units through a broker or other nominee, and you wish to vote in person at the special meeting, you must obtain from your broker or other nominee a proxy issued in your name.

The Restated LTIP will not be effective unless approved by the common unitholders. A quorum of more than 50% of our outstanding common units present in person or by proxy will permit us to conduct the proposed business at the special meeting. Our partnership agreement does not require that we present the Restated LTIP to our common unitholders for approval. However, under the rules of the New York Stock Exchange, the Restated LTIP requires the approval of a majority of the votes cast by our common unitholders, provided that the total votes cast on the LTIP Proposal represents at least 50% of all common units entitled to vote. Approval of the Adjournment Proposal requires the approval of a majority of the votes cast of the outstanding common units represented either in person or by proxy at the special meeting.

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Our board of directors unanimously recommends that the common unitholders vote FOR the LTIP Proposal and FOR the Adjournment Proposal.

I urge you to review carefully the attached proxy statement, which contains detailed descriptions of the LTIP Proposal and the Adjournment Proposal to be voted upon at the special meeting.

Sincerely,

MATTHEW P. CLIFTON

Chief Executive Officer and President of

Holly Logistic Services, L.L.C.

on behalf of Holly Energy Partners, L.P.

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HOLLY ENERGY PARTNERS, L.P.

2828 N. Harwood, Suite 1300

Dallas, Texas 75201

NOTICE OF SPECIAL MEETING OF COMMON UNITHOLDERS

To Be Held On [], 2012

To our common unitholders:

A special meeting of our common unitholders will be held on [], 2012, at 8:30 a.m., Dallas, Texas time, at 2727 N. Harwood, 5th Floor, Dallas, Texas 75201. At the meeting, our common unitholders will act on a proposal (the LTIP Proposal) to approve an amendment and restatement of the Holly Energy Partners, L.P. Amended and Restated Long-Term Incentive Plan (as it has been amended from time to time, the LTIP), which, among other things, provides for an increase in the maximum number of common units reserved and available for delivery with respect to awards under the LTIP to 1,250,000 common units. A copy of the amendment and restatement of the LTIP (the Restated LTIP) is attached to this proxy statement as Exhibit A. Our common unitholders will also act on a proposal to approve the adjournment of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the Restated LTIP (the Adjournment Proposal).

The form of proxy provides common unitholders the opportunity to vote on the LTIP Proposal. The Restated LTIP will not become effective unless approved by the common unitholders. A quorum of more than 50% of our outstanding common units present in person or by proxy will permit us to conduct the proposed business at the special meeting. Our partnership agreement does not require that we submit the Restated LTIP to common unitholders for a vote. However, under the rules of the New York Stock Exchange, the Restated LTIP requires the approval of a majority of the votes cast by our common unitholders, provided that the total votes cast on the LTIP Proposal represent at least 50% of all common units entitled to vote. Approval of the Adjournment Proposal requires the approval of a majority of the votes cast of the outstanding common units represented either in person or by proxy at the special meeting.

We have set the close of business on [], 2012 as the record date for determining which common unitholders are entitled to receive notice of and to vote at the special meeting and any postponements or adjournments thereof. A list of common unitholders entitled to vote is on file at our principal offices, 2828 N. Harwood, Suite 1300, Dallas, Texas 75201, and will be available for inspection by any unitholder during the meeting.

Our board of directors unanimously recommends that the common unitholders vote FOR the LTIP Proposal and FOR the Adjournment Proposal.

Your Vote is Very Important. If you cannot attend the special meeting, you may vote your common units electronically, via the Internet or by telephone, or by mailing the proxy card in the enclosed postage-prepaid envelope. Any common unitholder attending the meeting may vote in person, even though he or she already has returned a proxy.

BY ORDER OF THE BOARD OF DIRECTORS

OF HOLLY LOGISTIC SERVICES, L.L.C.,

the general partner of HEP LOGISTICS HOLDINGS, L.P.,

the general partner of HOLLY ENERGY PARTNERS, L.P.

MATTHEW P. CLIFTON

Chief Executive Officer and President

Holly Logistic Services, L.L.C.

Dallas, Texas

[], 2012

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROXY STATEMENT. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. THIS PROXY STATEMENT IS DATED [], 2012. YOU SHOULD ASSUME THAT THE INFORMATION CONTAINED IN THIS PROXY STATEMENT IS ACCURATE AS OF THAT DATE ONLY. OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THAT DATE.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF

PROXY MATERIALS FOR THE

SPECIAL MEETING TO BE HELD ON [], 2012

The Notice of Special Meeting of Common Unitholders and the Proxy Statement for

the Special Meeting of Common Unitholders are available at *<http://www.proxyvote.com>*.

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HOLLY ENERGY PARTNERS, L.P.

2828 N. Harwood, Suite 1300

Dallas, Texas 75201

PROXY STATEMENT

SPECIAL MEETING OF COMMON UNITHOLDERS

[], 2012

This proxy statement contains information related to the special meeting of common unitholders of Holly Energy Partners, L.P. (the Partnership) and any postponements or adjournments thereof. This proxy statement and the accompanying form of proxy are first being mailed to our common unitholders on or about [], 2012.

QUESTIONS AND ANSWERS

The following is qualified in its entirety by the more detailed information contained in or incorporated by reference in this proxy statement. Common unitholders are urged to read carefully this proxy statement in its entirety. FOR ADDITIONAL COPIES OF THIS PROXY STATEMENT OR PROXY CARDS, OR IF YOU HAVE ANY QUESTIONS ABOUT THE SPECIAL MEETING, CONTACT our Investor Relations Department at (214) 871-3555 or write to Investor Relations, Holly Energy Partners, L.P., 2828 N. Harwood, Suite 1300, Dallas, Texas 75201.

Q: What is the purpose of the special meeting?

A: At the special meeting, our common unitholders will act upon a proposal (the LTIP Proposal) to approve an amendment and restatement of the Holly Energy Partners, L.P. Long-Term Incentive Plan (as it has been amended from time to time, the LTIP), which, among other things, provides for an increase in the maximum number of common units reserved and available for delivery with respect to awards under the LTIP to 1,250,000 common units. A copy of the amended and restated LTIP (the Restated LTIP) is attached to this proxy statement as Exhibit A. Our common unitholders will also act on a proposal to approve the adjournment of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the Restated LTIP (the Adjournment Proposal).

Q: When and where is the special meeting?

A: The special meeting will be held on [], 2012, at 8:30 a.m., Dallas, Texas time, at 2727 N. Harwood, 5th Floor, Dallas, Texas 75201. The special meeting may be adjourned to another date and/or place for any proper purposes (including, without limitation, for the purpose of soliciting additional proxies). However, our partnership agreement also provides that, in the absence of a quorum, the special meeting may be adjourned from time to time by the affirmative vote of a majority of the outstanding common units represented either in person or by proxy.

Q: Who is soliciting my proxy?

A: HEP Logistics Holdings, L.P., our general partner (the General Partner), is sending you this proxy statement in connection with its solicitation of proxies for use at our special meeting of common unitholders. Certain directors, officers and employees of Holly Logistic Services, L.L.C., the general partner of the General Partner, may also solicit proxies on our behalf by mail, phone, fax or in person.

Q: Who is entitled to vote at the special meeting?

A: All common unitholders who owned our common units at the close of business on the record date, [], 2012, are entitled to receive notice of the special meeting and to vote the common units that they held on the record date at the special meeting, or any postponements or adjournments of the special meeting. Each common unitholder that attends the special meeting in person may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the special meeting.

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Q: What is the recommendation of the board of directors?

A: The board of directors recommends that you vote FOR the LTIP Proposal and FOR the Adjournment Proposal. In addition, on February 10, 2012, (i) the compensation committee of our board of directors unanimously recommended that our board of directors approve and (ii) our board of directors, including each of our directors who meet the independence requirements of the New York Stock Exchange (the NYSE), unanimously approved the Restated LTIP.

Q: How do I vote?

A: If you are a unitholder of record, you may vote your common units by proxy in advance of the special meeting. You may also attend the special meeting and vote your common units in person. Even if you plan to attend the special meeting, please vote your proxy in advance of the special meeting (by Internet, telephone or mail, as described below) as soon as possible so that your common units may be represented at the special meeting.

Internet. You may visit the Internet web site address listed on your proxy card. Internet voting procedures have been established to verify your identity and to confirm your voting instructions. Please have your proxy card available when you visit the Internet web site address.

Telephone. You may call the toll-free telephone number listed on your proxy card. Telephone voting procedures have been established to verify your identity, to allow you to provide proxy voting instructions and to confirm that your instructions were accurately recorded. Please have your proxy card available when you call.

Mail. You may mail your completed, signed and dated proxy card in the enclosed postage-paid return envelope. Internet and telephone voting will be available to unitholders of record 24 hours a day until 11:59 p.m. Eastern Time on [], 2012. If you use the Internet or the toll-free telephone number to provide your proxy voting instructions, you do not need to mail in your proxy card. If you mail in your proxy card, it must be received by the Partnership before the voting polls close at the special meeting.

If you are a beneficial owner of common units held in street name, you must either direct your broker or other nominee as to how to vote your common units, or obtain a legal proxy from your broker or other nominee to vote at the special meeting. Please refer to the voter instruction cards used by your broker or other nominee for specific instructions on methods of voting.

Q: What do I do if I want to change my vote?

A: If you are a unitholder of record, you may change your vote at any time before the voting polls close at the special meeting by:

submitting a proxy with new voting instructions using the Internet or telephone voting system at any time prior to 11:59 p.m. Eastern Time on [], 2012;

delivering a later-dated, executed proxy card to the Secretary of Holly Logistic Services, LLC (the Company), the general partner of our General Partner;

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delivering a written notice of revocation of your proxy to the Secretary of the Company; or

attending the special meeting and voting in person. Please note that attendance at the special meeting will not by itself revoke a previously granted proxy.

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If you are a beneficial owner of common units held in street name and you have instructed your broker or other nominee to vote your common units, you must follow the procedure your broker or other nominee provides to change those instructions. You may also vote in person at the special meeting if you obtain a legal proxy from your broker or other nominee.

Q: What constitutes a quorum?

A: If more than 50% of our outstanding common units on the record date are present in person or by proxy at the special meeting, such units will constitute a quorum and will permit us to conduct the proposed business at the special meeting. Your common units will be counted as present at the special meeting if you:

are present and vote in person at the meeting; or

have submitted a properly executed proxy.

Proxies received but marked as abstentions will be counted as common units that are present and entitled to vote for purposes of determining the presence of a quorum. If an executed proxy is returned by a broker or other nominee holding common units in street name indicating that the broker or other nominee does not have discretionary authority as to certain common units to vote on the proposals (a broker non-vote), such common units will be considered present at the meeting for purposes of determining the presence of a quorum but will not be considered entitled to vote.

Q: What vote is required to approve the proposals?

A: Under the New York Stock Exchange Listed Company Manual (NYSE Manual), the Restated LTIP requires the approval of a majority of the votes cast by our common unitholders, provided that the total votes cast on the LTIP Proposal represent more than 50% of all common units entitled to vote. Votes for and against and abstentions count as votes cast, while broker non-votes do not count as votes cast. Thus, the total sum of votes for, plus votes against, plus abstentions in respect of the LTIP Proposal, which is referred to the NYSE Votes Cast, must be greater than 50% of the total number of our outstanding common units. Once the NYSE Votes Cast requirement is satisfied, the number of votes cast for the LTIP Proposal must represent a majority of the NYSE Votes Cast in respect of the LTIP Proposal in order to be approved. Thus, broker non-votes can make it difficult to satisfy the NYSE Votes Cast requirement, and abstentions have the effect of a vote against the LTIP Proposal.

The proxy provides common unitholders the opportunity to vote on the LTIP Proposal. However, the Restated LTIP will not become effective unless approved by the common unitholders.

Approval of the Adjournment Proposal requires the approval of a majority of the votes cast of the outstanding common units represented either in person or by proxy at the special meeting.

A properly executed proxy submitted without voting instructions will be voted (except to the extent that the authority to vote has been withheld) **FOR** the LTIP Proposal and **FOR** the Adjournment Proposal.

HollyFrontier Corporation (HFC), the owner of Holly Logistic Services, L.L.C., the general partner of HEP Logistics Holdings, L.P., our general partner, owned [], or approximately []%, of our common units as of [], 2012 (the HFC Units). HFC has advised us that it intends to vote the HFC Units in favor of the Restated LTIP. Because the approval of the LTIP Proposal by HFC may not be sufficient to approve the LTIP Proposal, we encourage you to take part in the decision process by voting by proxy or at the special meeting.

Q:

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If my common units are held in street name by my broker or other nominee, will my broker or other nominee vote my common units for me?

- A:** If you own your common units in street name through a broker or other nominee, your broker or other nominee will not be permitted to exercise voting discretion with respect to the matters to be acted upon at the special meeting. Thus, if you do not give your broker or other nominee specific instructions, your common units will (i) not be voted and have no effect on the LTIP Proposal and (ii) not be voted and have no effect on the Adjournment Proposal. This is generally referred to as a broker non-vote. Broker non-votes will be considered present at the meeting for purposes of determining the presence of a quorum.

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Q: Who can I contact for further information?

A: If you have questions about the proposals, please call our Investor Relations Department at (214) 871-3555 or write to Investor Relations, Holly Energy Partners, L.P., 2828 N. Harwood, Suite 1300, Dallas, Texas 75201.

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THE PARTNERSHIP

We are a publicly traded limited partnership engaged principally in the business of operating a system of refined product, intermediate product and crude oil pipelines, storage tanks, distribution terminals and loading rack assets in west Texas, New Mexico, Utah, Oklahoma, Wyoming, Kansas, Colorado, Arizona, Idaho, and Washington. We generate revenues by charging tariffs for transporting petroleum products and crude oil through our pipelines and by charging fees for terminalling and storing refined products and other hydrocarbons and providing other services. 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. We serve refineries of HollyFrontier Corporation in New Mexico, Utah, Oklahoma, Wyoming and Kansas under several long-term pipeline, terminal, tankage and loading rack throughput agreements that have expiration dates ranging from 2019 to 2026. We also serve the refinery owned by Alon USA, Inc., in Big Spring, Texas under a pipelines and terminals agreement that expires in 2020. The substantial majority of our business is devoted to providing transportation, storage and terminalling services to HollyFrontier Corporation. HollyFrontier Corporation controls our general partner and owns a 42% interest in us, including a 2% general partner interest. We operate our business as one business segment.

We are a limited partnership formed under the laws of the State of Delaware. Our common units are listed on the NYSE under the ticker symbol HEP. Our executive offices are located at 2828 N. Harwood, Suite 1300, Dallas, Texas 75201. Our telephone number is (214) 871-3555. We maintain a website at <http://www.hollyenergy.com> that provides information about our business and operations.

As a limited partnership, we are managed by our general partner, HEP Logistics Holdings, L.P., which in turn is managed by its general partner, Holly Logistic Services, L.L.C. Holly Logistic Services, L.L.C. is ultimately responsible for the business and operations of our general partner and conducts our business and operations, and the board of directors and officers of Holly Logistic Services, L.L.C. make decisions on our behalf.

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APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE HOLLY ENERGY PARTNERS,

L.P. LONG-TERM INCENTIVE PLAN

Our board of directors has approved an amendment and restatement of the Holly Energy Partners, L.P. Long-Term Incentive Plan, which we refer to as the Restated LTIP, subject to the approval of our unitholders. The General Partner currently sponsors the LTIP, pursuant to which 350,000 of our common units may be issued. As of December 31, 2011, 60,604 common units were available for future awards under the LTIP and 289,396 common units were the subject of outstanding awards under the LTIP. The LTIP is integral to our compensation strategy and our board of directors believes that increasing the aggregate number of common units that may be delivered with respect to awards under the LTIP will provide the flexibility that we need to keep pace with our competitors and for the Company to effectively recruit, motivate and retain the caliber of employees and directors essential for achievement of our success. Accordingly, the Restated LTIP (i) increases the number of common units available for delivery with respect to awards under the LTIP to 1,250,000 common units, (ii) adds a prohibition on repricing of unit options and unit appreciation rights without approval of our unitholders, except in the case of adjustments implemented to reflect certain Partnership transactions and (iii) incorporates prior amendments to the LTIP as well as certain other non-material ministerial changes. While we are cognizant of the potential dilutive effect of compensatory unit awards, we also recognize the significant motivational, retention and performance benefits that are achieved from making awards under the LTIP.

Description of the Restated LTIP

The description of the Restated LTIP set forth below is a summary of the material features of the Restated LTIP. This summary, however, does not purport to be a complete description of all the provisions of the Restated LTIP. The summary is qualified in its entirety by reference to the Restated LTIP, a copy of which is attached hereto as Exhibit A and incorporated herein by reference.

The purpose of the Restated LTIP is to promote our interests by providing incentive compensation awards that encourage superior performance. The Restated LTIP is also intended to enhance the ability of the Company to attract and retain the services of individuals who are essential for our growth and profitability and to encourage those individuals to devote their best efforts to advancing our business.

Common Units Subject to the Restated LTIP

The maximum number of common units of the Partnership that may be delivered under the LTIP with respect to awards is currently 350,000 units, subject to adjustments for certain unit splits and other events, as provided by the Plan. If the Restated LTIP is approved by our unitholders, the maximum number of common units that may be delivered with respect to awards under the Restated LTIP will be increased to 1,250,000 common units, which would be subject to the same adjustments as currently provided in the LTIP.

The common units to be delivered under the Restated LTIP may be newly issued units, units acquired in the open market and/or from any person. To the extent that an award terminates or is cancelled prior to and without the delivery of common units (or if an award is forfeited), the units subject to the award may be used again with respect to new awards granted under the Restated LTIP. No awards under the Restated LTIP (other than tandem DERs granted with respect to a phantom unit) may be paid or settled in cash.

Administration

Like the current LTIP, the Restated LTIP will generally be administered by the Compensation Committee of our board of directors (the Committee). The Committee has the full authority, subject to the terms of the Restated LTIP, to establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Restated LTIP, to designate participants under the Restated LTIP, to determine the number of units to be covered by awards, to determine the type or types of awards to be grants to a participant, and to determine the terms and conditions of any award. The Committee may, but is not required to, delegate its authority with respect to granting awards to the CEO of the Company, subject to such limitations as the Committee may impose on any such delegation.

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Eligibility

All employees, consultants and directors of the Company and its affiliates that perform services for us are eligible to be selected to participate in the Restated LTIP. The selection of which eligible individuals will receive awards is within the sole discretion of the Committee (and, if the Committee delegates some of its authority to the CEO, then to a limited extent also within the discretion of the CEO). As of [], 2012, approximately [] individuals, including [] executive officers, [] non-employee directors and [] other employees, were eligible to receive awards under the LTIP.

Term of the Restated LTIP

The term of the Restated LTIP will expire on the earlier of (1) the date it is terminated by our board of directors or (2) the date common units are no longer available under the Restated LTIP for delivery pursuant to awards.

Awards under the Restated LTIP

Unit Options and Unit Appreciation Rights

Unit options represent the right to purchase a number of common units at a specified exercise price. Unit appreciation rights represent the right to receive common units equal to the appreciation in the value of a number of common units over a specified exercise price, either in cash or in common units, as determined by the Committee. Unit options and unit appreciation rights may be granted to such eligible individuals and with such terms as the Committee may determine, consistent with the Restated LTIP; however, unit options and unit appreciation rights must generally have exercise prices that are no less than the fair market value of their underlying common units as of the date of grant.

Restricted Units and Phantom Units

A restricted unit is a common unit that is subject to forfeiture. Upon vesting, the forfeiture restrictions lapse and the participant holds a common unit that is not subject to forfeiture. A phantom unit is a notional unit that entitles the participant to receive a common unit upon the vesting of the phantom unit or on a deferred basis upon specified future dates or events, which may be linked to service, performance criteria, and/or other specified criteria. Restricted units and phantom units that vest and/or become payable based on the achievement of performance conditions specified by the Committee are referred to in the Restated LTIP as Performance Awards. If a participant's employment, consulting or membership on our board of directors terminates for any reason, the participant's restricted units and phantom units will be automatically forfeited unless, and to the extent, the award agreement provides otherwise or the Committee determines otherwise. Distributions made by us with respect to awards of restricted units may, in the discretion of the Committee, be subject to the same vesting requirements as the restricted units (including any restricted units granted as Performance Awards). The Committee, in its discretion, may also grant tandem distribution equivalent rights with respect to phantom units (including any phantom units granted as Performance Awards).

Unit Awards

Unit awards are awards that, in whole or in part, are valued by reference to the value of a common unit. Unit awards may contain such vesting, payment and other terms and conditions as the Committee may deem appropriate in accordance with the terms of the Restated LTIP.

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Substitute Awards

Substitute awards may be granted under the Restated LTIP in substitution for similar awards held by individuals who become employees, consultants and directors of the Company or one of its affiliates as a result of a merger, consolidation or acquisition by us or an affiliate of another entity or the assets of another entity.

Adjustments

Upon certain transactions involving the Partnership, the number of units available for delivery under the Restated LTIP, the number and kind of units or property subject to awards and the exercise or other unit price will be adjusted as determined by the Committee.

Upon a change of control (as defined in the Restated LTIP) of the General Partner, the Partnership, the Company or HollyFrontier Corporation, all outstanding awards under the Restated LTIP will automatically become fully vested and payable unless the participant's award agreement provides otherwise.

Miscellaneous

Our board of directors or the Committee may amend or modify the Restated LTIP at any time; provided, however, that unitholder approval will be obtained for any amendment to the Restated LTIP to the extent necessary to comply with any applicable law, regulation or securities exchange rule. Our board of directors may also amend any outstanding award made under the Restated LTIP, provided that no change in any outstanding award may be made that would materially impair the vested rights of the participant without the consent of the affected participant.

Repricing of unit options and unit appreciation rights, directly or indirectly, is prohibited under the Restated LTIP without approval of our unitholders, except in the case of adjustments implemented to reflect certain Partnership transactions.

U.S. Federal Income Tax Consequences of the Restated LTIP

The following discussion is for general information purposes only and is intended to summarize briefly the U.S. federal tax consequences to participants arising from participation in the Restated LTIP. This description is based on current law, which is subject to change (possibly retroactively). The tax treatment of participants in the Restated LTIP may vary depending on their particular circumstances and, therefore, may be subject to special rules not discussed below. No attempt has been made to discuss any potential foreign, state, or local tax consequences. In addition, unit options or unit appreciation rights that provide for a deferral of compensation within the meaning of Section 409A of the Internal Revenue Code (Section 409A), phantom units, and certain other awards that may be granted pursuant to the Restated LTIP could be subject to additional taxes unless they are designed to comply with certain restrictions set forth in Section 409A and the guidance promulgated thereunder.

Unit Options and Unit Appreciation Rights

Participants will not realize taxable income upon the grant of a unit option or a unit appreciation right. Upon the exercise or, if later, the settlement of a unit option or a unit appreciation right, the participant will recognize ordinary compensation income in an amount equal to the excess of (i) the fair market value of the common units received over (ii) the exercise price (if any) paid therefor. A participant will generally have a tax basis in any common units received pursuant to the exercise of a unit appreciation right, or pursuant to the cash exercise of a unit option, that equals the fair market value of the common units on the date of exercise. Subject to the discussion under Tax Code Limitations on Deductibility below, we will be entitled to a deduction for federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by a participant under the foregoing rules.

When a participant sells the common units acquired as a result of the exercise of a unit option or unit appreciation right, any appreciation (or depreciation) in the value of the common units after the exercise date is treated as long- or short-term capital gain (or loss) for federal income tax purposes, depending on the holding period. The common units must be held for more than 12 months in order to qualify for long-term capital gain treatment.

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Phantom Units, Restricted Units and Other Awards

A participant will not have taxable income at the time of a grant of an award in the form of a phantom unit award, but rather, will generally recognize ordinary compensation income at the time he receives common units in settlement of the phantom unit award in an amount equal to the fair market value of the common units received. In addition, the participant will be subject to ordinary income tax upon the payment of a contingent right, granted in tandem with a specific phantom unit, to receive an amount in cash equal to, and at the same time as, the cash distributions made by the Partnership with respect to a common unit during the period such phantom unit is outstanding (a DER). In general, a participant will recognize ordinary compensation income as a result of the receipt of common units pursuant to a restricted unit award or a unit award in an amount equal to the fair market value of the common units when the common units are received. However, if the common units are not transferable or are subject to a substantial risk of forfeiture when received, the participant will recognize ordinary compensation income in an amount equal to the fair market value of common units (i) when the common units first become transferable or are no longer subject to a substantial risk of forfeiture, in cases where a participant does not make an valid election under Section 83(b) of the Internal Revenue Code (Section 83(b)) or (ii) when the common units are received, in cases where a participant makes a valid election under Section 83(b).

A participant who is an employee will be subject to withholding for federal, and generally for state and local, income taxes at the time he recognizes income under the rules described above with respect to common units (or cash with respect to a DER) received. Directors and consultants must make their own arrangements for satisfying any tax obligations they may incur in connection with the receipt of an award under the Restated LTIP. Distributions that are received by a participant prior to the time that the common units underlying an award are taxed to the participant under the rules described in the preceding paragraph are taxed as additional compensation, not as distributions on common units. The tax basis in the common units received by a participant will equal the amount recognized by him as compensation income under the rules described in the preceding paragraph, and the participant's capital gains holding period in those common units will commence on the date of receipt of the common units.

Subject to the discussion immediately below, we will be entitled to a deduction for federal income tax purposes that corresponds in timing and amount with the compensation income recognized by a participant under the foregoing rules.

Tax Code Limitations on Deductibility

In order for the amounts described above to be deductible by the Company or one of its affiliates, the amounts must constitute reasonable compensation for services rendered or to be rendered and must be ordinary and necessary business expenses.

Limited Partnership Interest

We are not a taxable entity, and as such, we do not incur any federal income tax liability. Instead, each holder of our common units is required to report on his income tax return his share of our income, gains, losses and deductions in computing his federal income tax liability, regardless of whether cash distributions are made to him by us. Distributions by us to a holder of common units are generally not taxable unless the amount of cash distributed is in excess of the holder's adjusted basis in his interest. Usually at the beginning of each year, we will mail to each partner a Schedule K-1 showing the amounts of income, gains, losses, and deductions that the partner is required to reflect on his federal income tax return as a limited partner for the preceding year. A limited partner will not qualify for using Form 1040EZ or 1040A, and may not file his federal income tax return until he has received his Schedule K-1 and reflected the relevant information contained therein in his tax return.

Plan Benefits Under the Restated LTIP

The awards, if any, that will be made to eligible persons under the Restated LTIP are subject to the discretion of the Committee and, therefore, we cannot currently determine the benefits or the number of common units subject to awards that may be granted in the future to our executive officers, employees and consultants or to members of our board of directors under the Restated LTIP. Furthermore, because all awards under the Restated LTIP are discretionary, it is not possible to determine which awards would have been granted during the prior fiscal year had the Restated LTIP been in effect at that time. Therefore, the New Plan Benefits Table is not provided.

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We made annual equity grants under the current LTIP to our executive officers in 2011, which are reported in the Grants of Plan-Based Awards table on page [] of this proxy statement. If the Restated LTIP is approved, we anticipate making awards to our executive officers and certain employees under the LTIP in 2012, but the amount of any such grants is not determinable at this time. Such awards will be subject to a vesting schedule that will be specified in the applicable award agreement, and the number of common units subject to any such awards will be determined at the time such awards are granted.

As required by applicable SEC disclosure rules, in order to comply with Item 10(b)(2)(ii) of Schedule 14A, the following table sets forth, for each of our named executive officers and certain other groups, all common units underlying Performance Awards granted under the LTIP that remained unvested as of December 31, 2011. In addition to the Performance Awards granted to Mr. Clifton shown in the table below, Messrs. Shaw and Cunningham and Ms McWatters have been granted restricted unit awards under the LTIP that remained unvested as of December 31, 2011. Information regarding these restricted unit awards is disclosed in the Outstanding Equity Awards at Fiscal Year End table on page [] of this proxy statement.

Name and Principal Position*	September 30, Number of Units	September 30, Dollar Value (\$)**
Matthew P. Clifton		
<i>Chairman of the Board, Chief Executive Officer and President</i>	64,487	\$ []
Bruce R. Shaw		
<i>Senior Vice President and Chief Financial Officer</i>		
Mark T. Cunningham		
<i>Vice President Operations</i>		
Denise C. McWatters		
<i>Vice President, General Counsel and Secretary</i>		
David G. Blair		
<i>Former President</i>		
Doug S. Aron		
<i>Former Executive Vice President and Chief Financial Officer</i>		
All current executive officers as a group	64,487	\$ []
All current directors who are not executive officers as a group		
Each nominee for election as a director		
All employees, including all current officers who are not executive officers, as a group	64,487	\$ []

* No associate of any of the named executive officers, directors or nominees set forth below holds or has held Performance Awards.

** Estimated using a common unit price of \$[], which was the closing price of our common units on [], 2012.

Vote Required

Under the New York Stock Exchange Listed Company Manual (NYSE Manual), the approval of a majority of the votes cast by our common unitholders, provided that the total votes cast on the LTIP Proposal represent more than 50% of all common units entitled to vote is required to approve the LTIP Proposal. Votes for and against and abstentions count as votes cast. Executed proxies returned by a broker or other nominee holding common units in street name indicating that the broker or other nominee does not have discretionary authority as to certain common units to vote on the proposals (a broker non-vote) do not count as votes cast. Thus, the total sum of votes for, plus votes against, plus abstentions in respect of the LTIP Proposal, which is referred to as the NYSE Votes Cast, must be greater than 50% of the total number of our outstanding common units. Once the NYSE Votes Cast requirement is satisfied, the number of votes cast for the LTIP Proposal must represent a majority of

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the NYSE Votes Cast in respect of the LTIP Proposal in order to be approved. Thus, broker non-votes can make it difficult to satisfy the NYSE Votes Cast requirement, and abstentions have the effect of a vote against the LTIP Proposal. A properly executed proxy submitted without voting instructions will be voted (except to the extent that the authority to vote has been withheld) **FOR** the LTIP Proposal.

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HollyFrontier Corporation (HFC), the owner of the Company, owned [], or approximately []%, of our common units as of [], 2012 (the HFC Units). HFC has advised us that it intends to vote the HFC Units in favor of the Restated LTIP. Because the approval of the LTIP Proposal by HFC may not be sufficient to approve the LTIP Proposal, we encourage you to take part in the decision process by voting by proxy or at the special meeting.

Recommendation

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE LTIP PROPOSAL.

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INTEREST OF DIRECTORS AND EXECUTIVE OFFICERS IN THE RESTATED LTIP

The officers and employees of the Company, its affiliates and our subsidiaries and the members of our board of directors will be eligible to receive awards under the Restated LTIP if it is approved. Accordingly, the members of our board of directors and the executive officers of the Company have a substantial interest in the approval of the LTIP Proposal.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
AND RELATED UNITHOLDER MATTERS**

The following table sets forth as of February 15, 2012 the beneficial ownership of common units of Holly Energy Partners, L.P. held by:

each person known to us to be a beneficial owner of 5% or more of our common units;

directors of Holly Logistic Services, L.L.C. (the "Company"), the general partner of HEP Logistics Holdings, L.P. (the "General Partner"), our general partner;

each named executive officer of the Company;

and by all directors and executive officers of the Company as a group.

The percentage of common units noted below is based on 27,361,124 common units outstanding as of February 15, 2012. Unless otherwise indicated, the address for each unit holder shall be c/o Holly Energy Partners, L.P., 2828 N. Harwood, Suite 1300, Dallas, Texas 75201-1507.

Name of Beneficial Owner	September 30, Common Units Beneficially Owned	September 30, Percentage of Common Units Beneficially Owned
HollyFrontier Corporation ⁽¹⁾	11,097,615	40.6%
Tortoise Capital Advisors, L.L.C. ⁽²⁾		