Delek Logistics Partners, LP
Form 10-K
March 12, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)

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

For the Fiscal Year Ended December 31, 2012

OR

o 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 001-35721

DELEK LOGISTICS PARTNERS, LP
(Exact name of registrant as specified in its charter)

Delaware	45-5379027
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7102 Commerce Way Brentwood, Tennessee	37027
(Address of principal executive offices)	(Zip Code)

(615) 771-6701
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Units Representing Limited Partner Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

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 o No þ

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 þ No o

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 (Section 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 232.405 of this chapter) 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 amendments of this Form 10-K. þ

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 o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a smaller reporting company)

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

The registrant cannot calculate the aggregate market value of its common units held by non-affiliates as of the last business day of its most recently completed second fiscal quarter because there was no established public trading market for its common units as of such date.

At February 28, 2013, there were 11,999,258 common units, 11,999,258 subordinated units and 489,766 general partner units outstanding.

Documents incorporated by reference: None

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Unless otherwise indicated or the context requires otherwise, the terms “DKL,” the "Partnership," “we,” “our,” and “us” are used in this report to refer to Delek Logistics Partners, LP, one or more of its consolidated subsidiaries or all of them taken as a whole.

Statements in this Annual Report on Form 10-K, other than purely historical information, including statements regarding our plans, strategies, objectives, beliefs, expectations and intentions are forward looking statements. These forward looking statements generally are identified by the words “may,” “will,” “should,” “could,” “would,” “predicts,” “inten “believes,” “expects,” “plans,” “scheduled,” “goal,” “anticipates,” “estimates” and similar expressions. Forward-looking staten are based on current expectations and assumptions that are subject to risks and uncertainties, including those discussed below and in Item 1A, Risk Factors, which may cause actual results to differ materially from the forward-looking statements. See also “Forward-Looking Statements” included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 1, Business, of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

General

Delek Logistics Partners, LP is a Delaware limited partnership formed in April 2012 by Delek US Holdings, Inc. ("Delek") and its indirect subsidiary, Delek Logistics GP, LLC, our general partner. Unless otherwise indicated or the context requires, "Delek" and "Sponsor" refer collectively to Delek and its subsidiaries other than DKL, DKL's subsidiaries and DKL's general partner. On November 7, 2012, the Partnership completed an initial public offering (the "Offering") of 9,200,000 common units (including 1,200,000 common units issued pursuant to the exercise of the underwriters' option to purchase additional common units), representing limited partner interests in the Partnership.

Upon completion of the Offering and as of December 31, 2012, the Partnership's business consisted of the assets, liabilities and results of operations of certain crude oil and refined products pipeline, transportation, wholesale marketing and terminalling assets previously owned, operated or held by Delek and certain of its subsidiaries, including Delek Marketing & Supply, LLC ("Marketing"), Paline Pipeline Company, LLC ("Paline") and Lion Oil Company ("Lion Oil"). For accounting purposes, prior to the completion of the Offering, the assets, liabilities, and results of operations of the aforementioned assets related to Delek Logistics Partners, LP Predecessor (our "Predecessor").

Overview

The Partnership owns and operates crude oil and refined products logistics and marketing assets. We generate revenue and contribution margin, which we define as net sales less cost of goods sold and operating expenses, by charging fees for gathering, transporting and storing crude oil and for marketing, distributing, transporting and storing refined products. A substantial majority of our existing assets are both integral to and dependent upon the success of Delek's refining operations as our assets support Delek's refineries in Tyler, Texas (the "Tyler Refinery") and El Dorado, Arkansas (the "El Dorado Refinery"). Accordingly, a substantial majority of our contribution margin is derived from Delek's successful operation of these refineries and the commercial agreements we have entered into with Delek with respect to these refineries. See "Business—Commercial Agreements—Commercial Agreements with Delek" for a description of each agreement. In addition to the services we provide to Delek, we also provide crude oil transportation services for, and terminalling and marketing services to, third parties in Texas, Tennessee and Arkansas. Some of these services are provided pursuant to contractual agreements with such third parties. See "Business--Commercial Agreements--Commercial Agreement with Third Parties."

We are not a taxable entity for federal income tax purposes or the income taxes of those states that follow the federal income tax treatment of partnerships. Instead, for purposes of these income taxes, each partner of the Partnership is required to take into account his, her or its share of items of income, gain, loss and deduction in computing his, her or its federal and state income tax liabilities, regardless of whether cash distributions are made to such partner by the Partnership. The taxable income reportable to each partner takes into account differences between the tax basis and fair market value of our assets, the acquisition price of such partner's units and the taxable income allocation requirements under our partnership agreement.

Information About Our Segments

We prepare segment information on the same basis that we review financial information for operational decision-making purposes. Currently, our business consists of two operating segments: (i) our pipelines and transportation segment and (ii) our wholesale marketing and terminalling segment. Additional segment and financial information is contained in our segment results included in Item 6, Selected Financial Data, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 14, Segment Data, of our consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Pipelines and Transportation Segment

Our pipelines and transportation segment primarily consists of assets that provide crude oil gathering, crude oil and refined products transportation and storage services in support of Delek’s refining operations in Tyler, Texas and El Dorado, Arkansas. Additionally, this segment provides crude oil transportation services to certain third parties, including a major integrated oil company. In providing these services, we do not take ownership of the products or crude oil that we transport or store; and, therefore, we are not directly exposed to changes in commodity prices.

This segment consists of assets primarily divided into four operating systems: (i) our Lion Pipeline System, (ii) our SALA Gathering System, (iii) our Paline Pipeline System, and (iv) our East Texas Crude Logistics System. Please see "Item 2—Properties—Our Asset Portfolio—Pipelines and Transportation Segment" for detailed descriptions of the assets that comprise these operating systems. The tables below show the operating results for each of our operating systems. For the years ended December 31, 2011 and 2010, we present the results of our Predecessor and for the year ended December 31, 2012, we present the results of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012, the closing date of the Offering, through December 31, 2012.

Lion Pipeline System. Our Lion Pipeline System transports crude oil to, and refined products from, Delek's El Dorado Refinery. The pipelines in this system also have injection points where crude oil gathered from the SALA Gathering System is injected and then transported to the El Dorado Refinery. We do not charge an additional tariff for the transportation of these gathered crude oils over the Lion Pipeline System if a tariff has been charged for transportation on the SALA Gathering System. In addition, a pipeline within the Lion Pipeline System transports minimal crude oil for a third party. We own 100% of each of these pipelines. The Lion Pipeline System and SALA Gathering System each have crude oil storage tanks and facilities ancillary to the operation of the pipeline system. The Lion Pipeline System is capable of transporting crude oil offloaded from rail cars at or near the El Dorado Refinery.

The following table details certain operating data for our Lion Pipeline System.

	Average Daily Throughput (bpd)	
	Year Ended December 31,	
	2012 (1)	2011 (2) Predecessor
Lion Pipeline System:		
Crude Oil Pipelines (Non-gathered) (3)	46,027	57,442
Refined Products Pipelines to Enterprise System	45,220	45,337

(1) Throughputs for the year ended December 31, 2012 include the throughputs of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.
(2) Throughputs for the year ended December 31, 2011 are for the 247 days Delek operated the El Dorado Refinery in 2011.
(3) Excludes crude oil gathered on our SALA Gathering System and injected into our Lion Pipeline System.

SALA Gathering System. The SALA Gathering System primarily gathers and transports crude oil that is purchased from various crude oil producers at individual crude oil leases. In addition, the gathering system transports small volumes of crude oil that is received from other sources and condensate that is purchased from a third party in east Texas. All such crude oil and other products are transported to Delek's El Dorado Refinery for processing. The table below sets forth historical throughput information for the SALA Gathering System.

	Average Daily Througput (bpd) Year Ended December 31,	
	2012 (1)	2011 (2) Predecessor
SALA Gathering System:		
Throughput (average bpd):	20,747	17,676

(1) Throughputs for the year ended December 31, 2012 include the throughputs of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.
(2) Throughputs for the year ended December 31, 2011 are for the 247 days Delek operated the El Dorado Refinery in 2011.

Paline Pipeline System. Our Paline Pipeline System runs from Longview, Texas to Nederland, Texas and was initially a northbound crude oil pipeline. In 2011, prior to our acquisition of the pipeline, Paline entered into a contract with a major integrated oil company was entered into whereby Paline agreed to reverse the Paline Pipeline System to enable it to run southbound in exchange for the customer to pay for the use of 100% of such southbound capacity through December 31, 2014. We also have a customer that transports a small volume of crude oil northbound from Kilgore. For a more thorough discussion of this contract, please see "Business—Commercial Agreements—Commercial Agreements with Third Parties—Paline Pipeline System Capacity Reservation"; "Item 1A—Risk Factors—Risks Relating to Our Business—If third-party pipelines, terminals or other facilities interconnected to our pipeline systems or terminals become partially or fully unavailable, or if we are unable to fulfill our contractual obligations, our financial condition, results of operations, cash flows and ability to make distributions to our unitholders could be adversely affected" and "Item 13—Certain Relationships and Related Transactions, and Director Independence" of this Annual Report on Form10-K.

East Texas Crude Logistics System. Our East Texas Crude Logistics System is currently the only pipeline system capable of supplying crude oil transportation and storage for the Tyler Refinery and delivers substantially all of the refinery's crude oil needs. The table below sets forth historical average daily throughput for the East Texas Crude Logistics System.

	Average Daily Throughput (bpd) Year Ended December 31,		
	2012	2011 Predecessor	2010 Predecessor
East Texas Crude Logistics System (average bpd)	55,068	55,341	49,388
% of Tyler Refinery Crude Throughput	97.6%	98.8%	98.8%

Beginning in the first half of 2013, we expect a reconfigured pipeline system that is owned and operated by third parties to also begin supplying crude oil to Delek's Tyler Refinery from west Texas. Delek has a 10-year agreement with these third parties to transport a substantial majority of the Tyler Refinery's crude oil requirements on this reconfigured system. As a result and to provide flexibility for our assets, we are reconfiguring a portion of the East Texas Crude Logistics System to be bi-directional, which will enable it to transport crude oil from the west to Longview if market conditions make doing so attractive. Please read "Item 1A—Risk Factors—Risks Relating to Our Business—We anticipate, beginning in the first half of 2013, our East Texas Crude Logistics System will operate at levels significantly below Delek's minimum volume commitment under its agreement with us for the foreseeable future" for additional information.

Wholesale Marketing and Terminalling Segment

Our wholesale marketing and terminalling segment provides wholesale marketing and terminalling services to Delek's refining operations and to independent third parties from whom we receive fees for marketing, transporting, storing and terminalling refined products. We generate revenue in our wholesale marketing and terminalling segment by (i) providing marketing services for the refined products output of the Tyler Refinery, (ii) engaging in wholesale activity at our Abilene and San Angelo, Texas terminals, as well as at terminals owned by third parties, whereby we purchase light products from third parties for sale and exchange to third parties, and (iii) providing terminalling services to independent third parties and Delek. See "Commercial Agreements—Commercial Agreements with Delek" and "Commercial Agreements—Commercial Agreements with Third Parties." The tables below show the operating results for the wholesale marketing and terminalling segment. For the years ended December 31, 2011 and 2010, we present the results of our Predecessor and for the year ended December 31, 2012 we present the results of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.

Wholesale Marketing

East Texas. Pursuant to a 10-year agreement with Delek, we market 100% of the refined products output of the Tyler Refinery, other than jet fuel and petroleum coke. Our services consist of identifying potential customers, negotiating and recommending for Delek's approval purchase orders and supply contracts, monitoring anticipated sales volumes and inventories and serving as a point of contact for sales and marketing issues. The following table sets forth the historical production of the Tyler Refinery.

		Year Ended December 31,	
	2012 (1)	2011 Predecessor	2010 Predecessor
Sales volumes (average bpd):			
Gasoline and gasoline blendstocks	30,143	29,110	26,850
Diesel/jet (2)	20,875	22,239	19,286
Petrochemical, LPG, NGLs	1,820	1,814	1,614
Other (2)	4,736	3,884	2,423
Total sales volumes	57,574	57,047	50,173

(1) Throughputs for the year ended December 31, 2012 include the throughputs of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.

(2) Prior to November 7, 2012, we also marketed jet fuel and petroleum coke. Subsequent to November 7, 2012, we ceased to market jet fuel and petroleum coke for Delek's Tyler Refinery. Accordingly, these amounts include jet fuel and petroleum coke for our Predecessor in years 2011 and 2010 and through November 6, 2012. Jet fuel and petroleum coke are excluded from these amounts subsequent to November 7, 2012.

West Texas. In our West Texas marketing operations, we generate revenue by purchasing refined products from independent third-party suppliers for sale and exchange to third parties at our San Angelo and Abilene, Texas terminals and at third-party terminals located in Aledo, Odessa, Big Spring and Frost, Texas. Substantially all of our product sales in west Texas are on a wholesale basis.

Substantially all of our refined petroleum products for sale in west Texas are purchased from two suppliers. Under our contract (the "Abilene contract") with Noble Petro, Inc. ("Noble Petro"), we have the right to purchase up to 20,350 bpd of refined petroleum products. Under this agreement, we purchase refined products based on monthly average prices from Noble Petro immediately prior to our resale of such products to customers at our San Angelo and Abilene, Texas terminals, which we lease to Noble Petro. Under this arrangement, we have limited direct exposure to risks associated with fluctuating

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prices for these refined products due to the short period of time between the purchase and resale of these refined products. The Abilene contract expires in December 2017 and does not have a renewal option.

In addition, we have the right to purchase 7,000 bpd of refined products for resale at third-party terminals along the Magellan Orion Pipeline located in Aledo, Odessa and Frost, Texas pursuant to our contract (the "East Houston contract") with Magellan Asset Services, L.P. ("Magellan"). The East Houston contract expires in December 2015, unless earlier terminated, and does not have a renewal option. We do not own, lease or operate any of the assets used to transport or store the refined products we purchase from Magellan. We do, however, own the inventory purchased under the East Houston contract. To hedge our exposure to fluctuations in commodity prices for the period between our purchase of products from Magellan and subsequent sales to our customers, from time to time we enter into Gulf Coast product swap arrangements with respect to the products we purchase.

The following table details the average aggregate daily number of barrels and total barrels of refined products that we sold in our west Texas wholesale operations for the periods indicated.

	Year Ended December 31, 2012 (1)	2011 Predecessor	2010 Predecessor
Throughput (average bpd) (2)	16,523	15,493	14,353
Bulk Biofuels (3)	5,577	3,022	—
Gross margin (in thousands) (2)	$15,512	$8,488	$7,639
Gross margin per barrel (2)	$2.56	$1.50	$1.46

(1) Throughputs for the year ended December 31, 2012 include the throughputs of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.

(2) Excludes bulk ethanol and biodiesel.

(3) Prior to November 7, 2012, we also marketed bulk ethanol and biodiesel, beginning in the fourth quarter of 2011. Subsequent to November 7, 2012, we no longer market bulk ethanol and biodiesel. Accordingly, these amounts are presented for the time period during which we marketed bulk biofuels.

Terminalling

We provide terminalling services for products to independent third parties and Delek through a light products terminal in Nashville, Tennessee and to Delek for products through our light products terminal in Memphis, Tennessee. Delek uses our Memphis terminal pursuant to a five-year terminalling agreement with us. We also have contracted to provide exclusive terminalling and storage services to Delek at our light products terminal in Big Sandy, Texas pursuant to a five-year agreement. This terminal is not currently operational; however, pursuant to the terms of the Big Sandy terminalling agreement, Delek must pay us a minimum fee based upon minimum storage and throughput amounts. See “Business—Commercial Agreements—Commercial Agreements with Delek—Wholesale Marketing and Terminalling—Terminalling.”

	Year Ended December 31, 2012 (1)	2011 (2) Predecessor	2010 Predecessor
Throughput (average bpd):			
Big Sandy, TX (3)	—	—	—
Memphis, TN	10,334	11,961	—
Nashville, TN	5,086	5,946	—
Total (average bpd)	15,420	17,907	—

(1) Throughputs for the year ended December 31, 2012 include the throughputs of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.

(2) Throughputs for the year ended December 31, 2011 are for the 247 days Delek operated the El Dorado Refinery in 2011.

(3) The Big Sandy terminal was acquired by Delek on February 7, 2012 and was idle during the period ended December 31, 2012.

Commercial Agreements

Commercial Agreements with Delek

Our commercial agreements with Delek described below became effective on November 7, 2012, concurrently with the completion of the Offering. Each of these agreements includes minimum quarterly volume or throughput commitments and has tariffs or fees indexed to inflation, provided that the tariffs or fees will not be decreased below the initial amount. Fees under each agreement are payable to us monthly by Delek or certain third parties to whom Delek has assigned certain of its rights. For a discussion of a third party's involvement in certain agreements, see "El Dorado Refinery Crude Oil and Refined Products Supply and Offtake Arrangement." In most circumstances, if Delek or the applicable third party assignee fails to meet or exceed the minimum volume or throughput commitment during any calendar quarter, Delek, and not any third party assignee, will be required to make a quarterly shortfall payment to us equal to the volume of the shortfall multiplied by the applicable fee. Carry-over of any volumes in excess of such commitment to any subsequent quarter is not permitted. Exceptions to this requirement that Delek make minimum payments under a given agreement exist if (i) there is an event of force majeure affecting our asset, or (ii) after the first three years of the applicable commercial agreement's term (a) there is an event of force majeure affecting Delek's asset or (b) Delek shuts down the applicable refinery after giving 12 months' notice, which such notice may be given only after the first two years of the applicable commercial agreement's term. In addition, Delek may terminate any of these agreements under certain circumstances. Please see “Risk Factors—Risks Related to Our Business—Each of our commercial agreements with Delek and the agreement governing the capacity reservation on our Paline Pipeline System contain provisions that allow our counterparty to such agreement to suspend, reduce or terminate its obligations under such agreement in certain circumstances, including events of force majeure, which could have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to unitholders” in Item 1A of this Annual Report on Form 10-K.

Under each of these agreements, we are required to maintain the capabilities of our pipelines and terminals such that Delek may throughput and/or store, as the case may be, specified volumes of crude oil and refined products. To the extent that Delek is prevented by our failure to maintain such capacities from throughputting or storing such specified volumes for more than 30 days per year, Delek's minimum throughput commitment will be reduced proportionately and prorated for the portion of the quarter during which the specified throughput capacity was unavailable, and/or the storage fee will be reduced, prorated for the portion of the month during which the specified storage capacity was unavailable. Such reduction would occur even if actual throughput or storage amounts were below the minimum volume commitment levels.

Each of the Partnership's commercial agreements with Delek, other than the marketing agreement described under "Wholesale Marketing and Terminalling—East Texas," has an initial term of five years, which may be extended at the option of Delek for up to two additional five-year terms. The marketing agreement has an initial term of ten years and may be renewed annually, thereafter.

The tariffs, throughput fees and the storage fees under our agreements with Delek are subject to increase or decrease on July 1 of each year, beginning on July 1, 2013, by the amount of any change in the Federal Energy Regulatory Commission ("FERC) " oil pipeline index or, in the case of the east Texas marketing agreement, the consumer price index; provided, however, that in no event will the fees be adjusted below the amount initially set forth in the applicable agreement.

Under each of these agreements, we will indemnify Delek and certain of its affiliates for any losses or liabilities (including reasonable attorneys' fees and other fees, court costs or disbursements) arising out of (i) any breach by us of a covenant or agreement or any representation or warranty under the applicable agreement; (ii) our failure to comply with any applicable law; or (iii) personal injury or property damage caused by us or our agents in the exercise of any rights thereunder or the handling of crude oil or refined products thereunder, except to the extent caused by the gross negligence or willful misconduct of the party or Delek seeking indemnification. Delek will indemnify us and certain of our affiliates for any losses or liabilities (including reasonable attorneys' fees and other fees, court costs or disbursements) arising out of (i) any breach by Delek or certain of its affiliates of a covenant or agreement or any representation or warranty under the agreement; (ii) any failure by it to comply with any applicable law; or (iii) any personal injury or property damage caused by it or its agents in the exercise of any rights thereunder or the handling of crude oil or refined products thereunder, except to the extent caused by the gross negligence or willful misconduct of the party seeking indemnification. Recoveries by either party under the indemnity will be net of any insurance proceeds actually received by such party.

Pipelines and Transportation

Lion Pipeline System. We entered into a pipelines and storage facilities agreement with Delek under which we provide transportation and storage services to the El Dorado Refinery. Under the pipelines and storage facilities agreement, Delek is obligated to meet certain minimum aggregate throughput requirements on the pipelines of our Lion Pipeline System and our SALA Gathering System as follows:

- Lion Pipeline System. The minimum throughput commitment on the Lion Pipeline System crude oil pipelines is an aggregate of 46,000 bpd (on a quarterly average basis) of crude oil shipped on the El Dorado, Magnolia and rail connection pipelines, other than crude oil volumes gathered on our SALA Gathering System, at a tariff rate of $0.85 per barrel. For the Lion Pipeline System refined products pipelines, the minimum throughput commitment is an aggregate of 40,000 bpd (on a quarterly average basis) of diesel or gasoline shipped on these pipelines at a tariff rate of $0.10 per barrel.

- SALA Gathering System. The minimum throughput commitment is an aggregate of 14,000 bpd (on a quarterly average basis) of crude oil transported on the SALA Gathering System at a tariff rate of $2.25 per barrel. Volumes initially gathered on the SALA Gathering System before injection into the Lion Pipeline System are not subject to an additional fee for transportation on our Lion Pipeline System to the El Dorado Refinery.

For a discussion of a third party's involvement in this agreement, see "El Dorado Refinery Crude Oil and Refined Products Supply and Offtake Arrangement."

East Texas Crude Logistics System. We entered into a five-year pipelines and tankage agreement with Delek pursuant to which we provide crude oil transportation and storage services for Delek's Tyler Refinery. This agreement replaced the pipelines and tankage agreement between Delek and our Predecessor. Under the current pipelines and tankage agreement, Delek is obligated to meet minimum aggregate throughput requirements of at least 35,000 bpd of crude oil, calculated on a quarterly average basis, on our East Texas Crude Logistics System for a transportation fee of $0.40 per barrel. For any volumes in excess of 50,000 bpd, calculated on a quarterly average basis, Delek is required to pay an additional fee of $0.20 per barrel. In addition, Delek pays a storage fee of $250,000 per month for the use of our crude oil storage tanks along our East Texas Crude Logistics system.

Wholesale Marketing and Terminalling

East Texas. We entered into a marketing agreement with Delek pursuant to which we market 100% of the output of the Tyler Refinery, other than jet fuel and petroleum coke. This agreement has a ten year initial term and automatically renews annually thereafter unless notice is given by either party ten months prior to the end of the then current term and replaced the marketing agreement between Delek and our Predecessor. Under the marketing agreement, Delek is obligated to make available to us for marketing and sale at the Tyler Refinery and/or our Big Sandy terminal an aggregate amount of refined products of at least 50,000 bpd, calculated on a quarterly average basis. In exchange for our marketing services, Delek pays us a base fee of $0.5964 per barrel of products it sells. In addition, Delek has agreed to pay us 50% of the margin, if any, above an agreed base level generated on the sale as an incentive fee, provided that the incentive fee shall not be less than $175,000 nor greater than $500,000 per quarter.

Terminalling. We entered into two five-year terminalling services agreements pursuant to which Delek pays us fees for providing terminalling services to Delek at our Memphis and Big Sandy terminals, as well as for storing product at our Big Sandy terminal. The minimum throughput commitments under these agreements are 10,000 bpd (on a quarterly average basis) for the Memphis terminal, representing approximately 75% of maximum loading capacity, and 5,000 bpd (on a quarterly average basis) for the Big Sandy terminal, representing approximately 55% of maximum loading capacity, in each case at a fee of $0.50 per barrel. The Big Sandy terminal is currently not operational because a pipeline owned by a third party necessary for the use of the terminal is out of service. Currently, we are in discussions with the third party owner to have the pipeline returned to service. Although we do not know when the pipeline will be returned to service and we do not control the pipeline and cannot assure what will be done, we currently expect the pipeline to be operational in 2013. However, even though the terminal is not currently operational, Delek is required to pay us to terminal at the Big Sandy

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terminal a minimum of 5,000 bpd of refined products from the Tyler Refinery and a storage fee of $50,000 per month, the minimum payment due per the agreement.

El Dorado Refinery Crude Oil and Refined Products Supply and Offtake Arrangement

Pursuant to a supply and offtake arrangement with Delek and its subsidiary Lion Oil Company ("Lion Oil") to which we are not a party, J. Aron & Company ("Aron") acquires and holds title to all crude oil and refined products transported on our Lion Pipeline System and SALA Gathering System. Aron is therefore considered the shipper on the Lion Pipeline System and the SALA Gathering System. Aron also has title to the refined products stored at our Memphis terminal. Under our pipelines and storage agreement with Lion Oil relating to the Lion Pipeline System and the SALA Gathering System and our terminalling agreement with Lion Oil relating to the Memphis terminal, Lion Oil has assigned to Aron certain of its rights, including the right to have Aron's crude oil and refined products stored in or transported on or through these systems and the Memphis terminal, with Lion Oil acting as Aron's agent for scheduling purposes. Accordingly, even though this is effectively a financing arrangement for Delek and Aron sells the product back to Delek, Aron is technically our primary customer under each of these agreements. Aron will retain these storage and transportation rights for the term of its arrangement with Delek and Lion Oil, which currently runs through April 30, 2014, and Aron will pay us for the transportation and storage services we provide to it. The rights assigned to Aron will not alter Lion Oil's obligations to meet certain throughput minimum volumes under our agreements with respect to the transportation, terminalling and storage of crude oil and refined products through our facilities, but Aron's throughput will be credited toward Lion Oil's minimum throughout commitments. Accordingly, Lion Oil will be responsible for making any shortfall payments incurred under the pipelines and storage agreement or the terminalling agreement that may result from minimum throughputs or volumes not being met.

Commercial Agreements with Third Parties

Pipelines and Transportation

Paline Pipeline System Capacity Reservation. In 2011, prior to our purchase of the Paline Pipeline, a major integrated oil company contracted with Paline to reverse the pipeline to primarily run southbound. In exchange, the oil company agreed to pay for the use of 100% of such southbound capacity for a monthly fee of $450,000 and $529,250 per month in 2012 and 2013, respectively, which will thereafter be subject to annual escalation based on the producer price index during any renewal periods. Under the contract, the pipeline was to be reversed in four segments and the amount of usage fees to be paid is based on the number of segments reversed. The monthly fees payable to us under our agreement with this customer will increase proportionately to the extent throughput volumes are above 30,000 bpd. The agreement extends through December 31, 2014 and will renew automatically each year unless terminated by either party at least six months prior to the year end.

Pursuant to the terms of the usage contract, this customer is required to make only payments of $229,000 per month in 2012 for this capacity until the final segment of the reversal of the Paline Pipeline System is completed and we enter into a connection agreement with an affiliate of the customer to connect our system with such affiliate's tanks. We completed our work on the fourth segment of the reversal in October 2012 and are currently waiting for our customer to complete its work on its tanks so that we can enter into the connection agreement. Because we have completed our necessary work, we believe we are owed the full payment under the contract beginning in November 2012 but our customer has paid only $229,000 per month in 2012. Pursuant to our omnibus agreement with Delek (described below), Delek has agreed to indemnify us during the period from November 1, 2012 through December 31, 2013 for any lost service fees attributable to the failure of our customer to pay 100% of the full monthly fee. Please see "Business—Other Agreements with Delek," "Item 1A—Risk Factors—If third-party pipelines, terminals or other facilities interconnected to our pipeline systems or terminals become partially or fully unavailable, or if we are unable to fulfill our contractual obligations, our financial condition, results of operations, cash flows and ability to make distributions to our unitholders could be adversely affected" and Item 13—"Certain Relationships and Related Transactions, and Director Independence" for additional discussion of this agreement.

Wholesale Marketing and Terminalling

West Texas. In our west Texas marketing operations, we generate revenue by purchasing refined products from independent third-party suppliers for resale at our San Angelo and Abilene, Texas terminals, which we lease to Noble

Petro, and at third-party terminals located in Aledo, Odessa, Big Spring and Frost, Texas. Substantially all of our product sales in west Texas are on a wholesale basis. Substantially all of our petroleum products for sale in west Texas are purchased from two suppliers. Under a contract with Noble Petro, we have the right to purchase up to 20,350 bpd of petroleum products for our Abilene, Texas terminal for sale and exchange at our Abilene and San Angelo, Texas terminals. Under this agreement, we purchase refined products based on monthly average prices from Noble Petro immediately prior to our resale of such products to customers at our San Angelo and Abilene terminals. Our agreement with Noble Petro expires in December 2017 and has no renewal options. Additionally, we have the right to purchase up to an additional 7,000 bpd of refined products pursuant to a contract with Magellan at its East Houston terminal for resale at third-party terminals along the Magellan Orion Pipeline located in Aledo, Odessa, and Frost, Texas. We do not own, lease or operate any of the assets used to transport or store the products we purchase from Magellan. Our agreement with Magellan expires in December 2015, unless earlier terminated, and has no renewal options.

Other Agreements with Delek

In addition to the commercial agreements described above, the Partnership entered into the following agreements with Delek upon the completion of the Offering.

Omnibus Agreement. We entered into an omnibus agreement with Delek under which Delek agreed not to compete with us under certain circumstances and granted us a right of first offer to acquire certain of its retained logistics assets, including certain terminals, storage facilities and other related assets located at the Tyler and El Dorado Refineries and, under specified circumstances, logistics and marketing assets that Delek may acquire or construct in the future. The omnibus agreement also contains the terms under which Delek will have a right of first refusal to purchase our assets that serve its refineries, including the Lion Pipeline System, the SALA Gathering System, the East Texas Crude Logistics System, the Big Sandy terminal, the Memphis terminal and the Paline Pipeline System. In addition, the omnibus agreement contains the terms under which Delek will have a right of first refusal to enter into an agreement with us with respect to all or a portion of the capacity of the Paline Pipeline System's 185-mile, 10-inch crude oil pipeline running between Longview and Nederland, Texas following the termination of our current contract with a major integrated oil company. Under the omnibus agreement, Delek also is required, under certain circumstances, to offer us the opportunity to purchase additional logistics assets that Delek may acquire or construct after the Offering. The omnibus agreement also requires us to pay a $2.7 million annual fee to Delek, indexed for inflation, for Delek's provision of centralized corporate services, including executive management services of Delek employees who devote less than 50% of their time to our business, financial and administrative services, information technology services, legal services, health, safety and environmental services, human resource services, and insurance administration. In addition, the omnibus agreement provides for Delek's reimbursement to us for certain operating expenses and certain maintenance capital expenditures and Delek's indemnification of us for certain matters, including environmental, title and tax matters. The omnibus agreement also requires Delek to indemnify us for the period from November 1, 2012 through December 31, 2013 for any lost service fees attributable to the failure to complete the reversal of the Paline Pipeline System and execute the related connection agreement, which is described under "—Commercial Agreements with Third Parties—Pipelines and Transportation—Paline Pipeline System Capacity Reservation" above. Delek indemnified us $0.4 million under this provision in 2012.

Delek has also agreed to reimburse us for any operating expenses in excess of $500,000 per year that we incur for inspections, maintenance and repairs to any of the storage tanks contributed to us by Delek that are necessary to comply with the United States Department of Transportation ("DOT") pipeline integrity rules and certain American Petroleum Institute storage tank standards through November 7, 2017. Furthermore, for each of (i) the twelve months ending September 30, 2013 and (ii) each calendar year through December 31, 2017, Delek will reimburse us for all non-discretionary maintenance capital expenditures, other than those required to comply with applicable environmental laws and regulations, in excess of $3.0 million for such twelve month period and per year that we make with respect to the assets contributed to us by Delek for which we have not been reimbursed as described in the preceding sentence. Delek's reimbursement obligations will not survive any termination of the omnibus agreement. In addition, Delek has agreed to reimburse us for capital expenditures in connection with certain capital improvements that were in progress as of November 7, 2012, which include (i) a pipeline connecting a rail offloading facility on the El Dorado Refinery to our Lion Pipeline System; (ii) any additional costs for the reversal of the Paline Pipeline System and (iii) the cost of capital improvements necessary to enable bi-directional flow on our Nettleton Pipeline.

Operation and Management Services Agreement. Our general partner operates our business on our behalf and is entitled under our partnership agreement to be reimbursed for the cost of providing those services. We and our general partner entered into an operation and management services agreement with Delek, pursuant to which our general partner uses employees of Delek to provide operational and management services with respect to our pipelines, storage and terminalling facilities and related assets, including operating and maintaining flow and pressure control, maintaining and repairing our pipelines, storage and terminalling facilities and related assets, conducting routine operational activities, and managing transportation and logistics, contract administration, crude oil and refined product measurement, database mapping, rights-of-way, materials, engineering support and such other services as our general partner and Delek may mutually agree upon from time to time. We and/or our general partner must reimburse Delek for such services under the operation and management services agreement.

Customers

We are dependent upon Delek as our primary customer and the loss of Delek as a customer would have a material adverse effect on both of our operating segments. We derive a substantial majority of our gross margin, which is defined as net sales less cost of goods sold, from fee-based commercial agreements with Delek. For more information pertaining to these agreements, please see "Information About Our Segments—Pipelines and Transportation—Agreements," "Information About Our Segments—Wholesale Marketing and Terminalling—Agreements," and "Commercial Agreements with Delek." We also have other customers, including major oil companies, independent refiners and marketers, jobbers, distributors, utility and transportation companies, and independent retail fuel operators.

Major Customer

Delek accounted for 20.9% and Susser Petroleum Company ("Susser") accounted for 17.5% of our total revenues, respectively, in our wholesale marketing and terminalling segment during the year ended December 31, 2012. Delek also accounted for 88.7% of our total revenues in our pipelines and transportation segment during the year ended December 31, 2012. We believe that gross margin is a better measure of performance of our business than revenue, particularly in our wholesale marketing and terminalling segment, as total revenue varies with the price of the underlying product, such as a gallon of finished product. Accordingly, we believe that, for the purpose of evaluating our business on a customer-specific basis, gross margin, which we define as net sales less cost of goods sold, is a more accurate indicator to reflect the importance of certain customers to our operations.

Delek accounted for 51.2% and 88.7% of our gross margin in our wholesale and terminalling segment and our pipelines and transportation segment, respectively, in the year ended December 31, 2012. Delek accounted for 57.3% and 58.0% of our Predecessor's gross margin in our wholesale and terminalling segment in the years ended December 31, 2011 and 2010, respectively, and for 46.0% and 100.0% of our gross margin in our pipelines and transportation segment in the years ended December 31, 2011 and 2010, respectively.

Business Strategies

Our objectives are to maintain stable cash flows and to grow the quarterly distributions paid to our unitholders. We intend to achieve these objectives through the following business strategies:

- Generate Stable Cash Flow. We will continue to pursue opportunities to provide logistics, marketing and other services to Delek and third parties pursuant to long-term, fee-based contracts. In new service contracts, we will endeavor to negotiate minimum throughput or other commitments similar to those included in our current commercial agreements with Delek.

- Focus on Growing Our Business. We intend to evaluate and pursue opportunities to grow our business through both strategic acquisitions and organic expansion projects.

Pursue Acquisitions. We plan to pursue strategic acquisitions that both complement our existing assets and provide attractive returns for our unitholders. Delek has granted us a right of first offer on certain logistics assets that were not transferred to us as part of the Offering. In addition, Delek is required, under certain circumstances, to offer us the opportunity to purchase additional logistics assets that Delek may acquire or construct in the future. Furthermore, we believe that our current asset base and our knowledge of the regional markets in which we operate will allow us to target and consummate attractive third-party acquisitions.

Pursue Attractive Organic Expansion and Construction Opportunities. We intend to pursue organic growth opportunities that complement our existing businesses or that provide attractive returns within or outside our current geographic footprint. We plan to evaluate any potential opportunities to make capital investments that will be used to expand our existing asset base through the development and construction of new logistics assets for which a need may arise as a result of the growth of any of our customers', including Delek's, businesses or from increased third-party activity.

- Optimize Our Existing Assets and Expand Our Customer Base. We intend to enhance the profitability of our existing assets by adding incremental throughput volumes, improving operating efficiencies and increasing system-wide utilization. Additionally, we expect to further diversify our customer base by increasing third-party throughput volumes running through our existing system and expanding our asset portfolio to service more third-party customers.

Competition

Pipelines and Transportation

Our business in this segment primarily consists of gathering and transporting crude oil and finished products for Delek and third parties, especially refiners. This business is very competitive. We face competition for the transportation of crude oil from other pipeline owners whose pipelines (i) may have a location advantage over our pipelines, (ii) may be able to transport more desirable crude oil to Delek or to third parties, or (iii) may be able to transport crude oil or finished product at a lower tariff. In addition, Delek's or any of our third-party customers' wholesale customers could reduce their purchases of refined products due to the increased availability of more competitively priced product from other refiners or suppliers or for other reasons. Any or all such factors could cause Delek or our third-party customers to reduce throughput at their respective facilities or to reduce throughput to a level that is below the minimum throughput commitments established in any contracts we may have with them or to not renew such contracts when the term expires.

We face competition for the transportation of crude oil to Delek's Tyler Refinery. As of December 31, 2012, our East Texas Crude Logistics System is currently the only pipeline system supplying crude oil to the Tyler Refinery. Beginning in the first half of 2013, however, we expect a reconfigured pipeline system that is owned and operated by third parties to begin supplying crude oil to the Tyler Refinery from west Texas. Delek has a multi-year agreement with these third parties to transport a substantial majority of the Tyler Refinery's crude oil requirements on this reconfigured system. Consequently, upon commencement of this third party agreement, crude oil volumes transported on our East Texas Crude Logistics System are expected to decrease significantly, and actual throughput on our East Texas Logistics System is expected to be below the minimum volume commitment under our agreement with Delek. This new pipeline will not have an effect on our marketing agreement with Delek for the refined product produced by the Tyler Refinery. Please see, "Risk Factors—Risks Relating to Our Business—We anticipate that, beginning in the first half of 2013, our East Texas Crude Logistics System will operate at levels significantly below Delek's minimum volume commitment under its agreement with us for the foreseeable future." In addition, the usage contract we have in place with a third party for our Paline Pipeline expires at the end of 2014. Currently there is, and we anticipate that in the future there will be, competition to transport crude oil or other products from other pipeline owners when that contract expires.

As a result of our physical integration with Delek's El Dorado Refinery and our contractual relationships with Delek relative to the El Dorado Refinery, we do not believe that we will face significant competition for the transportation of crude oil or refined products to or from the El Dorado Refinery, particularly during the term of our Lion Pipeline System and SALA Gathering System agreements with Delek. See "Business—Commercial Agreements—Commercial Agreements with Delek."

Wholesale Marketing and Terminalling

The wholesale marketing and terminalling business is generally very competitive. Our owned refined product terminals, as well as the other third-party terminals we use to sell refined product, compete with other independent terminal operators as well as integrated oil companies on the basis of terminal location, price, versatility and services provided. The costs associated with transporting products from a loading terminal to end users usually limit the geographic size of the market that can be served economically by any terminal. Two key markets in west Texas that we serve from our owned facilities are Abilene and San Angelo, Texas. We have direct competition from an independent refinery that markets through another terminal in the Abilene market. However, there are no competitive fuel loading terminals within approximately 90 miles of our San Angelo terminal. Our Nashville terminal competes with a significant number of other terminals located in the greater Nashville area.

With respect to the marketing services we provide to Delek's Tyler Refinery, as a result of our exclusive 10-year agreement with Delek to market 100% of the refined products output of the Tyler Refinery, other than jet fuel and petroleum coke, we do not believe that we will face significant competition for these services from third parties. Should Delek's wholesale customers, however, reduce their purchases of refined products due to the increased availability of more competitively priced products from other suppliers or for other reasons, the volumes we sell under the aforementioned agreement could decrease below the minimum volume commitment under the contract. Our agreement with Delek, however, does provide for a minimum volume of 50,000 bpd, which approaches the nameplate capacity of the Tyler Refinery of 60,000 bpd. Delek's Tyler Refinery is the only full-range product supplier within 100 miles, and we, therefore, believe its location gives the Tyler Refinery a natural advantage over more distant competitors.

Governmental Regulation and Environmental Matters

Rate Regulation of Petroleum Pipelines

The rates and terms and conditions of service on certain of our pipelines are subject to regulation by the FERC under the Interstate Commerce Act (“ICA”) and by the state regulatory commissions in the states in which we transport crude oil and refined products, including the Railroad Commission of Texas, the Louisiana Public Service Commission, and the Arkansas Public Service Commission. Certain of our pipeline systems are subject to such regulation and have filed tariffs with the FERC. We also intend to comply with the reporting requirements for these pipelines. Some of our other pipelines have received a waiver from application of FERC's tariff requirements but will comply with other regulatory requirements.

The FERC regulates interstate transportation under the ICA, the Energy Policy Act of 1992 and the rules and regulations promulgated under those laws. The ICA and its implementing regulations require that tariff rates for interstate service on oil pipelines, including pipelines that transport crude oil and refined products in interstate commerce (collectively referred to as “petroleum pipelines”), be just, reasonable and non-discriminatory and that such rates and terms and conditions of service be filed with the FERC. Under the ICA, shippers may challenge new or existing rates or services. The FERC is authorized to suspend the effectiveness of a challenged rate for up to seven months, though rates are typically not suspended for the maximum allowable period.

While the FERC regulates rates for shipments of crude oil or refined products in interstate commerce, state agencies may regulate rates and service for shipments in intrastate commerce. There is not a clear boundary between transportation service provided in interstate commerce, which is regulated by the FERC, and transportation service provided in intrastate commerce, which is not regulated by the FERC. Such determinations are highly fact-dependent and are made on a case-by-case basis. We cannot provide assurance that the FERC will not at some point assert that some or all of the transportation service we provide, for which we do not have a tariff on file, is within its jurisdiction. If the FERC were successful with any such assertion, the FERC's ratemaking methodologies may subject us to potentially burdensome and expensive operational, reporting and other requirements. Currently, we own pipeline assets in Texas, Arkansas and Louisiana. In Texas, a pipeline, with some exceptions, is required to operate as a common carrier by publishing tariffs and providing transportation without discrimination. Arkansas provides that all intrastate oil pipelines are common carriers. In Louisiana, all pipelines conveying petroleum from a point of origin within the state to a destination within the state are declared common carriers. The Louisiana Public Service Commission is empowered with the authority to establish reasonable rates and regulations for the transport of petroleum by a common carrier, mandating public tariffs and providing of transportation without discrimination. State commissions have generally not been aggressive in regulating common carrier pipelines, have generally not investigated the rates or practices of petroleum pipelines in the absence of shipper complaints, and generally resolve shipper complaints informally.

Department of Transportation

The Pipeline and Hazardous Materials Safety Administration ("PHMSA") at the Department of Transportation ("DOT") regulates the design, construction, testing, operation, maintenance and emergency response of crude oil, petroleum products and other hazardous liquids pipelines and certain tank facilities. These requirements are complex, subject to change and, in certain cases, can be costly to comply with. We believe our operations are in substantial compliance with these regulations but cannot assure you that future requirements will not require substantial expenditures on our part to remain in compliance. Moreover, certain of these rules are difficult to insure adequately and we cannot assure you that we will have adequate insurance to address damages from any noncompliance.

On December 13, 2011, the United States Congress passed the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011, or Pipeline Safety Act. The President signed the Pipeline Safety Act into law on January 3, 2012. Under the Pipeline Safety Act, maximum civil penalties for certain violations have been increased from $100,000 to $200,000 per violation per day, and from a total cap of $1 million to $2 million. A number of the provisions of the Pipeline Safety Act have the potential to cause owners and operators of pipeline facilities to incur significant capital expenditures and/or operating costs. We believe any additional requirements resulting from these directives will not impact us differently than our competitors. We intend to work closely with our industry associations to participate with and monitor DOT-PHMSA's efforts.

The DOT has issued guidelines with respect to securing regulated facilities against terrorist attack. We have instituted security measures and procedures in accordance with such guidelines to enhance the protection of certain of our facilities. We cannot provide any assurance that these security measures would fully protect our facilities from an attack.

Environmental Health and Safety

We are subject to various federal, state and local environmental and safety laws enforced by a number of regulatory agencies, including the U.S. Environmental Protection Agency ("EPA"), the U.S. Department of Transportation / Pipeline and Hazardous Materials Safety Administration, the U.S. Department of Labor / Occupational Safety and Health Administration, the Texas Commission on Environmental Quality, the Texas Railroad Commission, the Arkansas Department of Environmental Quality and the Tennessee Department of Environment and Conservation as well as other state and federal agencies. Numerous permits or other authorizations are required under these laws for the operation of our terminals, pipelines, storage tanks and related operations, and may be subject to revocation, modification and renewal.

These laws and permits create potential exposure to future claims and lawsuits involving environmental and safety matters, which could include soil and water contamination, air pollution, personal injury and property damage allegedly caused by substances that we manufactured, handled, used, released or disposed of, or that relate to pre-existing conditions for which we have assumed responsibility. We believe that our current operations are in substantial compliance with existing environmental and safety requirements. However, there have been and will continue to be ongoing discussions about environmental and safety matters between us and federal and state authorities, including notices of violations, citations and other enforcement actions, some of which have resulted or may result in changes to our operating procedures or capital expenditures. While it is often difficult to quantify future environmental or safety related expenditures, we anticipate that continuing capital investments and changes in operating procedures will be required for the foreseeable future to comply with existing and new requirements as well as evolving interpretations and more strict enforcement of existing laws and regulations.

Employees

We have no employees. Rather, we are managed by the directors and officers of our general partner. All of our general partner's executive management personnel are employees of Delek or a subsidiary of Delek and devote the portion of their time to our business and affairs that is required to manage and conduct our operations. Pursuant to our omnibus agreement with Delek, we pay an annual fee of $2.7 million for the provision of various centralized corporate services, including legal, accounting, information technology, and tax, among others, and we also reimburse Delek for other direct or allocated costs and expenses incurred by Delek on our behalf. Please see, "Commercial Agreements with Delek—Omnibus Agreement." In addition, our general partner operates our business on our behalf and is entitled under our partnership agreement to be reimbursed for the cost of providing those services.

We and our general partner also entered into an operation and management services agreement with Delek, pursuant to which our general partner uses employees of Delek to provide operational and management services with respect to our pipelines, storage and terminalling facilities and related assets, including day-to-day pipeline, terminal and logistics services and support and such other services and support as our general partner and Delek may mutually agree upon from time to time. We and/or our general partner must reimburse Delek for such services under the operation and management services agreement. Please see "Commercial Agreements with Delek—Operation and Management Services Agreement".

Seasonality and Customer Maintenance Programs

The volume and throughput of crude oil and refined products transported through our pipelines and sold through our terminals and to third parties is directly affected by the level of supply and demand for all of such products in the markets served directly or indirectly by our assets. Supply and demand for such products fluctuates during the calendar year. Demand for gasoline, for example, is generally higher during the summer months than during the winter months due to seasonal increases in motor vehicle traffic, while demand for asphalt products, which is a substantial product of Delek's El Dorado Refinery, is lower in the winter months. In addition, our refining customers, such as Delek, occasionally slow or shut down operations to perform planned maintenance during the winter, when demand for their products is lower. Accordingly, these factors can affect the need for crude oil or finished products by our customers and therefore limit our volumes or throughput during these periods, and our operating results will generally be lower during the first and fourth quarters of the year. We, however, believe that many of the potential effects of seasonality on our revenues and contribution margin will be substantially mitigated due to our commercial agreements with Delek that include minimum volume and throughput commitments.

Available Information

Our internet website address is www.DelekLogistics.com. Information contained on our website is not part of this Annual Report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed with (or furnished to) the Securities and Exchange Commission (“SEC”) are available on our internet website (in the “Investor Relations” section) free of charge, as soon as reasonably practicable after we file or furnish such material to the SEC. We also post our corporate governance guidelines, code of business conduct and ethics and the charter of the committees of the board of directors of our general partner in the same website location. Our governance documents are available in print to any unitholder that makes a written request to Secretary, Delek Logistics Partners, LP, 7102 Commerce Way, Brentwood, TN 37027.

ITEM 1A. RISK FACTORS

Limited partner interests are inherently different from shares of capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in similar businesses. If any of the following risks were to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, we might not be able to pay the minimum quarterly distribution on our common units or the trading price of our common units could decline.

Risks Relating to Our Business

Delek accounts for a substantial majority of our margins. Therefore, we are indirectly subject to the business risks of Delek. If Delek changes its business strategy, fails to satisfy its obligations under our commercial agreements for any reason or significantly reduces the volumes transported through our pipelines or handled at our terminals or its use of our marketing services, our revenues, and, consequently, our margins would decline and our financial condition, results of operations, cash flows and ability to make distributions to our unitholders would be adversely affected.

Delek, in its own name and through Aron, accounted for 71.1% of our gross margin for the year ended December 31, 2012. Delek, through Aron, is the principal customer for our Lion Pipeline System, our SALA Gathering System and our Memphis terminal. Delek is the only customer for our East Texas Crude Logistics System and our Big Sandy terminal. See "Commercial Agreements—Commercial Agreements with Delek"; and "—Commercial Agreements with Delek—El Dorado Refinery Crude Oil and Refined Products Supply and Offtake Arrangement". Prior to the Offering, Delek operated these assets solely to support the Tyler and El Dorado Refineries and not as a stand-alone business, further increasing our reliance on the operation of these refineries. We also derive a significant portion of our margin under our marketing agreement with Delek from the output of the Tyler Refinery (other than jet fuel and petroleum coke), which includes an incentive fee to us of 50% of the margin, if any, above an agreed base level (up to $500,000 per quarter). As we expect to continue to derive the substantial majority of our margins from Delek for the foreseeable future, we are subject to the risk of nonpayment, nonperformance or underperformance by Delek under our commercial agreements. If Delek were to significantly decrease, or cause the significant decrease of, the throughput transported on our pipelines or the volumes of refined products handled at our Big Sandy (once operational) or Memphis terminals, because of business or operational difficulties or strategic decisions by Delek's management, it is unlikely that we would be able to utilize any additional capacity on these pipelines or at these terminal facilities to service third-party customers without substantial capital outlays and delays, if at all, which could materially and adversely affect our results of operations, financial condition and cash flows. For example, we expect a reconfigured third-party pipeline system will begin supplying crude oil to the Tyler and El Dorado Refineries in the first half of 2013 and cause crude oil volumes transported on our East Texas Crude Logistics System to decrease. Additionally, any event, whether in our areas of operation or otherwise, that materially and adversely affects Delek's financial condition, results of operations or cash flows may adversely affect us and our business and therefore our ability to sustain or increase cash distributions to our unitholders. Accordingly, we are indirectly subject to the operational and business risks of Delek, including but not limited to the following:

- the risk of contract cancellation, non-renewal or failure to perform by Delek's customers, and Delek's inability to replace such contracts, customers and/or revenues;
- disruptions due to equipment interruption or failure at Delek's facilities, such as the November 2008 fire at the Tyler Refinery that resulted in a suspension of operations for more than five months, or at third-party facilities on which Delek's business is dependent;
- the timing and extent of changes in commodity prices and the resulting demand for Delek's refined products, and the availability and costs of crude oil and other refinery feedstocks;
- the effects of economic downturns on Delek's business and the business of its suppliers, customers, business partners and lenders;
- Delek's ability to remain in compliance with its supply and offtake arrangement with Aron;
- Delek's ability to remain in compliance with the terms of its outstanding indebtedness;
- changes in the cost or availability of third-party pipelines, terminals and other means of delivering and transporting crude oil, feedstocks and refined products, such as the reconfigured third-party pipeline system that is expected to begin supplying crude oil to the Tyler and El Dorado Refineries in 2013, the temporary suspension of crude oil shipments by a third-party pipeline operator in May 2011 that caused the El Dorado Refinery to operate at reduced capacity for approximately five weeks and the temporary suspension of crude oil shipments by this third-party pipeline operator in April 2012 that continues to cause the El Dorado Refinery to operate at reduced capacity;
- state and federal environmental, economic, health and safety, energy and other policies and regulations, and any changes in those policies and regulations;
- environmental incidents and violations and related remediation costs, fines and other liabilities (including those that may arise from pending Department of Justice-led enforcement actions at the Tyler and El Dorado Refineries under the Clean Air Act and the Clean Water Act, respectively); and
- changes in crude oil and refined product inventory levels and carrying costs.

Additionally, Delek continually considers opportunities presented by third parties with respect to its refinery assets. These opportunities may include offers to purchase certain assets and joint venture propositions. Delek may also change its refineries' operations by constructing new facilities, suspending or reducing certain operations, or modifying or closing facilities. Changes may be considered to meet market demands, to satisfy regulatory requirements or environmental and safety objectives, to improve operational efficiency or for other reasons. Delek actively manages its assets and operations, and, therefore, changes of some nature, possibly material to its business relationship with us, may occur at some point in the future.

Furthermore, conflicts of interest may arise between Delek and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. We have no control over Delek, our largest source of contribution margin in its own name and through Aron, and Delek may elect to pursue a business strategy that does not favor us or our business. Please see "—Risks Relating to Our Common Units—Our general partner and its affiliates, including Delek, have conflicts of interest with us and limited duties to us and our unitholders, and they may favor their own interests to the detriment of us and our other common unitholders"

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner and its affiliates, to enable us to pay the minimum quarterly distribution to holders of our common and subordinated units.

In order to pay the minimum quarterly distribution of $0.375 per unit, or $1.50 per unit on an annualized basis, we will require available cash of approximately $9.4 million per quarter, or $37.4 million per year, based on the number of common, subordinated and general partner units that were outstanding at December 31, 2012 and 494,883 phantom units with distribution equivalent rights that have been awarded to the independent directors of our general partner and certain key employees of our affiliates pursuant to our long-term incentive plan. We may not have sufficient available cash each quarter to enable us to pay the minimum quarterly distribution. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things:

- the volume of crude oil and refined products we handle;
- our entitlement to payments associated with minimum volume commitments;
- the rates and terminalling and storage fees we charge for the volumes we handle;
- the margins generated on the refined products we market or sell;
- timely payments by our customers;

- the level of our operating, maintenance and general and administrative expenses, including the administrative fee under the omnibus agreement and reimbursements to Delek for services provided to us; and
- prevailing economic conditions.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, including:

- the level and timing of capital expenditures we make and the timely reimbursement by Delek for any such expenditures for which it is required to reimburse us under our omnibus agreement between Delek and us;
- the cost of acquisitions, if any;
- our debt service requirements and other liabilities;
- fluctuations in our working capital needs;
- our ability to borrow funds and access capital markets;
- restrictions on distributions contained in our debt agreements;
- the amount of cash reserves established by our general partner; and
- other business risks affecting our cash levels.

The amount of cash we have available for distribution to our unitholders depends primarily on our cash flow rather than our profitability. As a result, we may make cash distributions during periods when we record net losses, and we may not make cash distributions during periods when we record net income.

Each of our commercial agreements with Delek and the agreement governing the capacity reservation on our Paline Pipeline System contain provisions that allow our counterparty to such agreement to suspend, reduce or terminate its obligations under such agreement in certain circumstances, including events of force majeure, which could have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to unitholders.

Each of our commercial agreements with Delek provide that Delek may suspend, reduce or terminate its obligations to us, including the requirement to pay the fees associated with the applicable minimum volume commitments, in the event of (i) a material breach of the agreement by us, (ii) Delek deciding to permanently or indefinitely suspend refining operations at one or more of its refineries, or (iii) the occurrence of certain force majeure events that would prevent us or Delek from performing our or its obligations under the applicable agreement. Delek has the discretion to decide to suspend, reduce or terminate its obligations notwithstanding the fact that its decision may significantly and adversely affect us. For instance, under each of our commercial agreements with Delek, if, at any time after November 7, 2014, Delek decides to permanently or indefinitely suspend refining operations at the refinery served under the applicable agreement for a period that will continue for at least 12 consecutive months, then it may terminate the agreement on no less than 12 months' prior written notice to us. Furthermore, under such agreements, Delek has the right, commencing November 7, 2015, to suspend or reduce its obligations for the duration of a force majeure event affecting its assets with respect to any affected services, and may terminate the agreements with respect to such services if the force majeure event lasts in excess of 12 months after November 7, 2015. In addition, if a force majeure event occurs on our assets at any time, Delek has the right to suspend or reduce its obligations for the duration of the force majeure event with respect to any affected services. As defined in our commercial agreements with Delek, force majeure events include any acts or occurrences that prevent services from being performed either by us or Delek under the applicable agreement, such as:

- acts of God;
- strikes, lockouts or other industrial disturbances;
- acts of the public enemy, wars, blockades, insurrections, riots or civil disturbances;
- storms, floods or washouts;
- arrests or the order of any court or governmental authority having jurisdiction while the same is in force and effect;
- explosions, breakage, or accident to machinery, storage tanks or lines of pipe;
- any inability to obtain or unavoidable delay in obtaining material or equipment;
- any inability to deliver crude oil or refined products because of a failure of third-party pipelines; and
- any other causes not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome.

Our customer for the southbound capacity of the Paline Pipeline System is also excused from performance of its obligations under its agreement with us in the event of a force majeure, including those events outlined above. Additionally, this customer may terminate its agreement with us if we breach the terms of the agreement and fail to remedy the breach within 90 days.

Accordingly, there exists a broad range of events that could result in our no longer being able to utilize our pipelines or terminals and the counterparty to the applicable commercial agreement no longer having an obligation to meet its minimum volume commitments or pay the amounts otherwise owing under the applicable agreement. Furthermore, a single event relating to one of Delek’s refineries could have such an impact on multiple of our commercial agreements with Delek. Any reduction, suspension or termination of any of our commercial agreements could have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to unitholders.

If Delek satisfies only its minimum obligations under, or if we are unable to renew or extend, the various commercial agreements we have with it, our ability to make distributions to our unitholders may be impaired.

Delek is not obligated to use, or to pay us with respect to our services for volumes of crude oil or refined products in excess of the minimum volume commitments under the various commercial agreements with us. During refinery turnarounds, which typically last 30 to 60 days and are performed every three to five years, and during other planned maintenance periods, Delek may only satisfy its minimum volume commitments with respect to our assets that serve the refinery. Turnarounds are scheduled at the Tyler and El Dorado Refineries in 2014. If Delek had satisfied only its minimum volume commitments during the year ended December 31, 2012 under each of the various commercial agreements with us, we would not have been able to make the full minimum quarterly distribution on all of our outstanding common units. In addition, the terms of Delek's obligations under those agreements range from five to ten years unless earlier terminated as described above. If Delek fails to use our services for volumes of crude oil or refined products in excess of the minimum volume commitments or to use our facilities and services after expiration of those agreements, or if Delek terminates those agreements prior to their expiration, and we are unable to generate additional revenues from third parties, our ability to make cash distributions to unitholders may be impaired. See "—We anticipate that, beginning in the first half of 2013, our East Texas Crude Logistics System will operate at levels significantly below Delek's minimum volume commitment under its agreement with us for the foreseeable future."

We anticipate that, beginning in the first half of 2013, our East Texas Crude Logistics System will operate at levels significantly below Delek's minimum volume commitment under its agreement with us for the foreseeable future.

Our East Texas Crude Logistics System is currently the only pipeline system supplying crude oil to the Tyler Refinery. Beginning in the first half of 2013, however, we expect a reconfigured pipeline system that is owned and operated by third parties to also begin transporting crude oil to the Tyler Refinery from west Texas. Delek has a 10-year agreement with such third parties to transport a substantial majority of the Tyler Refinery's crude oil requirements on this reconfigured system. Consequently, crude oil volumes transported on our East Texas Crude Logistics System are expected to decrease from approximately 55,000 bpd to below 10,000 bpd. For so long as Delek is required to pay the associated minimum volume commitment under its commercial agreement with us relating to the East Texas Crude Logistics System, Delek will be obligated to pay us throughput fees in an amount equal to the fees it would pay were we to throughput 35,000 bpd, or approximately $5.1 million annually based on the per barrel fees in our agreement. Without the minimum volume commitment, assuming throughput levels of 10,000 bpd, we would be entitled to throughput fees of approximately $1.5 million annually. Such throughput fees are in addition to the storage fees of $3.0 million per year that Delek will be obligated to pay us under the agreement. We do not expect to realize incremental revenues associated with this fee structure following the commencement of third-party transportation to the Tyler Refinery.

A material decrease in the refining margins at either of Delek's refineries could materially reduce the volumes of crude oil or refined products that we handle, which could adversely affect our financial condition, results of operations, cash flows and ability to make distributions to unitholders.

The volumes of crude oil and refined products that we transport and refined products that we market depend substantially on Delek's refining margins. Refining margins are dependent mostly upon the price of crude oil or other refinery feedstocks and the price of refined products. These prices are affected by numerous factors beyond our or Delek's control, including the global supply and demand for crude oil, gasoline and other refined products. The current global economic uncertainty and high unemployment in the United States or other reasons could depress demand for refined products. The impact of low demand may be further compounded by excess global refining capacity and high inventory levels. Several refineries in North America and Europe have been temporarily or permanently shut down in response to falling demand and excess refining capacity.

In addition to current market conditions, there are long-term factors that may impact the supply and demand of refined products in the United States, including:

- changes in capacity and utilization rates of refineries worldwide;
- increased fuel efficiency standards for vehicles, including greater acceptance of electric and alternative fuel vehicles;
- development and marketing of alternative and competing fuels, such as ethanol and biodiesel;
-

changes in fuel specifications required by environmental and other laws, particularly with respect to renewable fuel content;
- potential and enacted climate change legislation;
- the Environmental Protection Agency (EPA) regulation of greenhouse gas emissions under the Clean Air Act; and
- other U.S. government regulations.

The price for a significant portion of the crude oil processed at Delek's refineries is based upon the West Texas Intermediate (WTI) benchmark for such oil rather than the Brent benchmark. Although these two benchmarks have historically been similarly priced, elevated inventories of WTI-priced crude oil in the Mid-Continent have caused WTI prices to fall significantly below the Brent benchmark. During the year ended December 31, 2012, this differential ranged from a high of $25.53 per bbl to a low of $9.17 per bbl. During the year ended December 31, 2011, this differential ranged from a high of $27.88 per bbl to a low of $3.29 per bbl. A substantial or prolonged narrowing in (or inversion to) the price differential between the WTI and Brent benchmarks for any reason, including, without limitation, actual or perceived reductions in Mid-Continent inventories or a continued weakening of economic conditions in the European Union, could negatively impact Delek's refining margins. In addition, because the premium or discount Delek pays for a portion of the crude oil processed at its refineries is established based upon this differential during the month prior to the month in which the crude oil is processed, changes in the margin between the cost of crude oil and the sales price of refined products may negatively affect its results of operations and cash flows.

In addition to our indirect exposure to Delek's refining margins, we are directly impacted by the wholesale margins of the Tyler Refinery relative to U.S. Gulf Coast prices, where our marketing agreement with Delek provides that we share a portion of Delek's margin, if any, above an agreed base level generated on the sale of refined products, other than jet fuel and petroleum coke.

The Tyler Refinery has historically processed primarily light sweet crude oils, while the El Dorado Refinery processes primarily sour crude oils. Light sweet crude oils have historically been more costly than heavy sour crude oils, and an increase in the cost of light sweet crude oils could negatively impact or reduce Delek's operations at the Tyler Refinery, which would negatively impact the revenues we generate under our marketing agreement and could have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.

If the demand for refined products, particularly in Delek's primary market areas, decreases significantly, or if there were a material increase in the price of crude oil supplied to Delek's refineries without an increase in the value of the refined products produced by those refineries, either temporary or permanent, which caused Delek to reduce production of refined products at its refineries, there would likely be a reduction in the volumes of crude oil and refined products we handle for Delek. Any such reduction could adversely affect our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.

A material decrease in the supply of attractively priced crude oil could materially reduce the volumes of crude oil and refined products that we transport and store, which could materially adversely affect our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.

The volumes of crude oil and refined products that we may transport on our pipelines in excess of Delek's minimum volume commitments will depend on the volumes of crude oil processed and refined products produced at Delek's refineries. The volumes of crude oil processed and refined products produced depends, in part, on the availability of attractively priced crude oil.

In order to maintain or increase production levels at Delek's refineries, Delek must continually contract for new crude oil supplies or consider connecting to alternative sources of crude oil. Adverse developments in major oil producing regions around the world could have a significantly greater impact on our financial condition, results of operations and cash flows because of our lack of industry and geographic diversity and substantial reliance on Delek as a customer. Accordingly, in addition to risks related to accessing, transporting and storing crude oil and refined products, we are disproportionately exposed to risks inherent in the broader oil and gas industry, including:

- the volatility and uncertainty of regional pricing differentials for crude oil and refined products;
- the ability of the members of the Organization of Petroleum Exporting Countries, or OPEC, to agree to and maintain production controls;
- the nature and extent of governmental regulation and taxation; and
- the anticipated future prices of crude oil and refined products in markets served by Delek's refineries.

If, as a result of any of these or other factors, the volumes of attractively priced crude oil available to Delek's refineries are materially reduced for a prolonged period of time, the volumes of crude oil and refined products that we transport and store, and the related fees for those services, could be materially reduced, which could materially adversely affect our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.

Our substantial dependence on Delek's Tyler and El Dorado Refineries as well as the lack of diversification of our assets and geographic locations could adversely affect our ability to make distributions to our common unitholders.

We believe that a substantial majority of our contribution margin for the foreseeable future will be derived from operations supporting the Tyler and El Dorado Refineries. Any event that renders either refinery temporarily or permanently unavailable would likely have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our unitholders. Furthermore, we are indirectly impacted by limitations associated with attributes of the Tyler and El Dorado Refineries. For example, for the years ended December 31, 2012 and 2011, most sales of the Tyler Refinery products volume were completed through Delek's rack system located at the Tyler Refinery. Neither we nor Delek owns, and, unlike most refineries, the Tyler Refinery has no access to, an outbound pipeline for distribution of its refined petroleum products outside the northeast Texas market. Such limited access to an outbound pipeline may impair Delek's ability to attract new customers or increase sales for refined petroleum products from the Tyler Refinery. The Tyler Refinery is currently the only supplier of a full range of refined petroleum products within a radius of approximately 100 miles of its location. If competitors commence operations within the markets served by the Tyler Refinery, it could result in reduced demand for refined products from the Tyler Refinery. If demand for refined products from the Tyler Refinery decreases, our revenues under our marketing agreement above specified minimum throughput fees with Delek may decrease. In addition, reduced demand for refined products from the Tyler Refinery could decrease the demand for crude oil transported on our East Texas Crude Logistics System, which would reduce our revenues.

We rely on revenues generated from our pipelines, gathering systems and storage and terminal operations, which are primarily located in Arkansas and Texas and, to a lesser degree, Tennessee. Due to our lack of diversification in assets and geographic location, an adverse development in our businesses or areas of operations, including adverse developments due to catastrophic events, weather, regulatory action and decreases in demand for crude oil and refined products, could have a significantly greater impact on our results of operations and cash available for distribution to our common unitholders than if we maintained more diverse assets and locations. Such events may constitute force majeure events under our commercial agreements, potentially resulting in the suspension, reduction or termination of multiple commercial agreements in the affected geographic area. In addition, during planned maintenance periods or a refinery turnaround, we expect that Delek may only satisfy its minimum volume commitments with respect to our assets that serve such refinery. Please see "—Each of our commercial agreements with Delek and the agreement governing the capacity reservation on our Paline Pipeline System contain provisions that allow our counterparty to such agreement to suspend, reduce or terminate its obligations under such agreement in certain circumstances, including events of force majeure, which would have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to unitholders" and "—If Delek satisfies only its minimum obligations under, or if we are unable to renew or extend, the various commercial agreements we have with it, our ability to make distributions to our unitholders will be reduced."

Our ability to expand may be limited if Delek's business does not grow as expected.

Part of our growth strategy depends on the growth of Delek's business. For example, in our terminals and storage business, we believe our growth will be driven in part by identifying and executing organic expansion or new construction projects that will result in increased or new throughput volumes from Delek and third parties. Our prospects for organic growth currently include projects that we expect Delek to undertake, such as constructing new tankage, and that we expect to have an opportunity to purchase from Delek. In addition, our organic growth opportunities will be limited if Delek is unable to acquire new assets for which our execution of organic projects is needed. Additionally, if Delek focuses on other growth areas or does not make capital expenditures to fund the organic growth of its logistics operations, we may not be able to fully execute our growth strategy.

We may not be able to significantly increase our third-party revenue due to competition and other factors, which could limit our ability to grow and may increase our dependence on Delek.

Our ability to increase our third-party revenue is subject to numerous factors beyond our control, including competition from third parties and the extent to which we have available capacity when third-party shippers require it. Under our commercial agreements with Delek, we may not provide service to third parties on our Lion Pipeline System, SALA Gathering System or East Texas Crude Logistics System, or at our Memphis or Big Sandy terminals, without Delek's consent, subject to limited exceptions. In addition, our ability to obtain third-party customers on our East Texas Crude Logistics System will be dependent on our ability to make connections to third-party facilities and pipelines. If we do not or are unable to make connections to third-party facilities and pipelines, or if Delek prohibits us from doing so, the throughput on our East Texas Crude Logistics System will be limited to the demand from the Tyler Refinery not satisfied by third parties and the availability of crude oil shipped from third-party destinations. Furthermore, to the extent that we have capacity at our refined products terminals available for third-party volumes, competition from other existing or future refined products terminals owned by our competitors may limit our ability to

utilize this available capacity.
We can provide no assurance that we will be able to attract material third-party revenues. Our efforts to establish our reputation and attract new unaffiliated customers may be adversely affected by our relationship with Delek and our desire to provide services pursuant to fee-based contracts. Our potential third-party customers may prefer to obtain services under contracts through which we could be required to assume direct commodity exposure.

The costs, scope, timelines and benefits of any construction projects we undertake may deviate significantly from our original plans and estimates.

One of our business strategies is to evaluate and make capital investments to expand our existing asset base through the development and construction of new or expanded logistics assets. At the same time, we also will need to devote significant resources to maintaining our asset base. However, in developing or maintaining such assets, we may experience unanticipated increases in the cost, scope and completion time for our construction or maintenance and repair projects. Equipment that we require to complete these projects may be unavailable to us at expected costs or within expected time periods. Additionally, labor expense may exceed our expectations. Due to these or other factors beyond our control, we may be unable to complete these projects within anticipated cost parameters and timelines. In addition, the benefits we realize from completed projects may take longer to realize and/or be less than we anticipated. Our inability to complete and/or realize the benefits of construction and/or maintenance projects in a cost-efficient and timely manner could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions.

If we are unable to obtain needed capital or financing on satisfactory terms to fund expansions of our asset base, our ability to make quarterly cash distributions may be diminished or our financial leverage could increase. We do not have any commitments with any of our affiliates to provide any direct or indirect financial assistance to us.

In order to expand our asset base, we will need to make expansion capital expenditures. If we do not make sufficient or effective expansion capital expenditures, we will be unable to expand our business operations and may be unable to maintain or raise the level of our quarterly cash distributions. We will be required to use cash from our operations or incur borrowings or sell additional common units or other limited partner interests in order to fund our expansion capital expenditures. Using cash from operations will reduce cash available for distribution to our common unitholders. Our ability to obtain financing or to access the capital markets for future equity or debt offerings may be limited by our financial condition at the time of any such financing or offering as well as the covenants in our debt agreements, general economic conditions and contingencies and uncertainties that are beyond our control. In connection with our cash distribution to Delek in connection with the Offering, we agreed to retain at least $90 million in outstanding debt, either under our credit facility or as a result of certain refinancings thereof, until November 2015. Therefore, the amount of funds we will be able to borrow under our credit facility until November 2015 will limited by this outstanding amount. This may also limit our ability to obtain desired additional debt through this period. Even if we are successful in obtaining funds for expansion capital expenditures through equity or debt financings, the terms thereof could limit our ability to pay distributions to our common unitholders. Moreover, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional limited partner interests may result in significant common unitholder dilution and increase the aggregate amount of cash required to maintain the then-current distribution rate, which could materially decrease our ability to pay distributions at the then-current distribution rate.

Delek's level of indebtedness, the terms of its borrowings and any future credit ratings could adversely affect our ability to grow our business, our ability to make cash distributions to our unitholders and our credit ratings and profile. Our ability to obtain credit in the future and our future credit rating may also be affected by Delek's level of indebtedness.

Delek has a significant amount of debt. As of December 31, 2012, Delek had total debt of $362.2 million, including current maturities of $52.2 million. In addition to its outstanding debt, as of December 31, 2012, letters of credit issued under Delek's various credit facilities were $181.9 million. Delek's significant level of debt could increase its vulnerability to general adverse economic and industry conditions and require Delek to dedicate a substantial portion of its cash flow from operations to service its debt and lease obligations, thereby reducing the availability of its cash flow to fund its growth strategy, including capital expenditures, acquisitions and other business opportunities. Furthermore, a higher level of indebtedness at Delek increases the risk that it may default on its obligations, including under its commercial agreements with us. In addition, a substantial portion of Delek's debt has a variable rate of interest, which increases its exposure to interest rate fluctuations. The covenants contained in the agreements governing Delek's outstanding and future indebtedness may limit its ability to borrow additional funds for development and make certain investments and may directly or indirectly impact our operations in a similar manner.

For example, Delek's indebtedness requires that any transactions it enters into with us must be on terms no less favorable to Delek than those that could have been obtained with an unrelated person. Furthermore, we have no control over whether Delek remains in compliance with the provisions of its credit arrangements or over the occurrence of certain events, except as such provisions or events may otherwise directly pertain to us or be under our control. If Delek were to default under certain of its debt obligations or if certain events were to occur, we could be materially adversely affected. For example, under the agreements governing Delek's term note with Bank Leumi USA (the "Leumi Note"), Delek's term note with Israel Discount Bank of New York (the "IDB Note") and Lion Oil's $100 million term loan credit facility (the "Term Loan Facility"), the relevant obligor would have to prepay each such note or loan if (i) Delek Group Ltd. ("Delek Group"), a conglomerate domiciled and publicly traded in Israel that as of December 31, 2012 beneficially owned, through its subsidiaries, approximately 53%, of the outstanding capital stock of Delek, were to beneficially own less than 30% of the outstanding capital stock of Delek, (ii) Delek Group is not the single largest shareholder of Delek, or (iii) the membership of the board of directors of Delek is not comprised of a majority of (a) the members of the current board of directors of Delek, (b) individuals nominated by the current board or future continuing directors or (c) individuals voted for by Delek Group. Neither we nor Delek has the ability to ensure that Delek

Group's ownership remains at or above 30%, that Delek Group is the largest single shareholder or that the membership of the Delek board of directors is suitable. There is also the risk that if Delek were to default under certain of its debt obligations, Delek’s creditors would attempt to assert claims against our assets during the litigation of their claims against Delek. The defense of any such claims could be costly and could materially impact our financial condition, even absent any adverse determination. In the event these claims were successful, our ability to meet our obligations to our creditors, make distributions and finance our operations could be materially adversely affected.

Although we are not contractually bound by and are not liable for Delek’s debt under its credit arrangements, we are indirectly affected by certain prohibitions and limitations contained therein. Specifically, under the terms of certain of its credit arrangements, we expect that Delek will be in default if we incur any indebtedness for borrowed money in excess of $225.0 million at any time outstanding, which amount is subject to increase for certain acquisitions of additional or newly constructed assets and for growth capital expenditures, in each case, net of asset sales, and for certain types of debt, such as debt obligations owed under hedge agreements, intercompany debt of the Partnership and our subsidiaries and debt under certain types of contingent obligations. Delek must also comply with certain financial covenants. Please see “Management’s Discussion and Analysis—Capital Resources and Liquidity—Agreements Governing Certain Indebtedness of Delek.” Due to its ownership and control of our general partner, Delek has the ability to prevent us from taking actions that would cause Delek to violate any covenants in its credit arrangements, or otherwise to be in default under any of its credit arrangements. In deciding whether to prevent us from taking any such action, Delek will have no fiduciary duty to us or our unitholders. Delek’s compliance with the covenants in its credit arrangements may restrict our ability to undertake certain actions that might otherwise be considered beneficial, including borrowing under our credit facility.

Any debt instruments that Delek or any of its affiliates enter into in the future, including any amendments to existing credit facilities, may include additional or more restrictive limitations on Delek that may impact our ability to conduct our business. These additional restrictions could adversely affect our ability to finance our future operations or capital needs or engage in, expand or pursue our business activities.

Delek’s debt is not rated by any credit rating agencies. If we were to seek a credit rating in the future, our credit rating may be adversely affected by the leverage or any future credit rating of Delek, as credit rating agencies such as Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc. may consider the leverage and credit profile of Delek and its affiliates because of their ownership interest in and control of us and because Delek accounts for a substantial majority of our contribution margin. Any adverse effect on our credit rating would likely increase our cost of borrowing or hinder our ability to raise financing in the capital markets, which could impair our ability to grow our business and make cash distributions to our unitholders.

Our logistics and marketing operations and Delek’s refining operations are subject to many risks and operational hazards, some of which may result in business interruptions and shutdowns of our or Delek’s facilities and liability for damages. If a significant accident or event occurs that results in a business interruption or shutdown, our operations and financial results could be adversely affected.

Our logistics and marketing operations are subject to all of the risks and operational hazards inherent in gathering, transporting and storing crude oil and refined products, including:

- damages to pipelines and facilities, related equipment and surrounding properties caused by earthquakes, floods, fires, severe weather, explosions and other natural disasters and acts of terrorism;
- the inability of third-party facilities on which our operations are dependent, including Delek’s facilities, to complete capital projects and to restart timely refining operations following a shutdown;
- mechanical or structural failures at our facilities or at third-party facilities on which our operations are dependent, including Delek’s facilities;
- curtailments of operations as a result of severe seasonal weather;
- inadvertent damage to pipelines from construction, farm and utility equipment;
- constrained pipeline and storage infrastructure; and
- other hazards.

These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage, as well as business interruptions or shutdowns of our facilities. Any such event or unplanned shutdown could have a material adverse effect on our business, financial condition and results of operations. In addition, Delek's refining operations, on which our operations are substantially dependent and over which we have no control, are subject to similar operational hazards and risks inherent in refining crude oil. A significant accident at our facilities or at Delek's facilities could expose us to significant liability and could affect Delek's ability and/or requirement to satisfy the minimum volume commitments under our commercial agreements with Delek.

Our insurance policies do not cover all losses, costs or liabilities that we may experience, and insurance companies that currently insure companies in the energy industry may cease to do so or substantially increase premiums.
We are insured under the property, liability and business interruption insurance policies of Delek, subject to the deductibles and limits under those policies. To the extent Delek experiences losses under the insurance policies, the limits of our coverage may be decreased. In addition, we are not insured against all potential losses, costs or liabilities. We could suffer losses for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. In addition, because Delek’s business interruption policy does not cover losses for the first 21, 30, 45 or 60 days of the interruption, depending on the facility, a significant part or all of a business interruption loss could be uninsured. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on our business, financial condition and results of operations.
The energy industry is highly capital intensive, and the entire or partial loss of individual facilities or multiple facilities can result in significant costs to both energy industry companies, such as us, and their insurance carriers. In recent years, several large energy industry claims have resulted in significant increases in the level of premium costs and deductible periods for participants in the energy industry. For example, hurricanes in recent years have caused significant damage to several pipelines along the United States Gulf Coast. As a result of large energy industry claims, insurance companies that have historically participated in underwriting energy-related facilities may discontinue that practice, may reduce the insurance coverage they are willing to offer or demand significantly higher premiums or deductible periods to cover these facilities. If significant changes occur in the number or financial solvency of insurance underwriters for the energy industry, or if other adverse conditions over which we have no control prevail in the insurance market, we may be unable to obtain and maintain adequate insurance at reasonable cost.
In addition, we cannot be assured that our insurers will renew our insurance coverage on acceptable terms, if at all, or that we will be able to arrange for adequate alternative coverage in the event of non-renewal. The unavailability of full insurance coverage to cover events in which we suffer significant losses could have a material adverse effect on our business, financial condition and results of operations.
A material decrease in the supply, or increase in the price, of crude oil produced in the southern Arkansas and northern Louisiana area or increased competition for the purchasing and transporting of such crude could materially reduce the volume of crude oil gathered and transported by our SALA Gathering System, which could adversely affect our financial condition, results of operations, cash flows and ability to make distributions to unitholders.
All southern Arkansas and northern Louisiana area crude oil supplied to the El Dorado Refinery is gathered and transported by our SALA Gathering System. In order to maintain or increase refined product production levels at the El Dorado Refinery, Delek must continually contract for new crude oil supplies in the southern Arkansas and northern Louisiana area or consider connecting to alternative sources of crude oil, such as crude oil supplied from Texas through third-party pipelines. Adverse developments in the southern Arkansas and northern Louisiana area, including reduced availability of production surrounding our SALA Gathering System or an increase in the price of crude oil supplied in this area, could result in decreased throughput on our SALA Gathering System, because this area is the sole source of crude oil for our SALA Gathering System. Reserves in this area could be lower than we currently anticipate, and production may decline faster than we currently project. Accordingly, in addition to general industry risks related to gathering and transporting crude oil, we are disproportionately exposed to certain risks in the southern Arkansas and northern Louisiana area, including:

- reduced development and production associated with depressed commodity prices;
- volatility and uncertainty of regional pricing differentials;
- lack of drilling activity;
- the limited availability of drilling rigs for producers;
- weather-related curtailment of operations by producers and disruptions to gathering and transportation operations;
- the nature and extent of governmental regulation and taxation; and
- the anticipated future prices of crude oil and refined products in markets that the El Dorado Refinery serves.

Furthermore, the development of third-party crude oil gathering systems in the southern Arkansas and northern Louisiana area could disproportionately impact our SALA Gathering System, should producers ship on competing systems or using alternative methods, thereby impacting the price and availability of crude oil to be transported to the

El Dorado Refinery by our SALA Gathering System. Additionally, due to the current attractive pricing for such crude, third parties who do not currently ship on our pipeline or gathering systems may seek to enter the market and attempt to purchase crude oil in the southern Arkansas and northern Louisiana markets that Delek currently purchases and ships on our SALA Gathering System. If, as a result of any of these or other factors, the volume of attractively priced crude oil available to the El Dorado Refinery is materially reduced for a prolonged period of time, the volume of crude oil gathered and transported by our SALA Gathering System and the related fees could be materially reduced, which could adversely affect our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.

If third-party pipelines, terminals or other facilities interconnected to our pipeline systems or terminals become partially or fully unavailable, or if we are unable to fulfill our contractual obligations, our financial condition, results of operations, cash flows and ability to make distributions to our unitholders could be adversely affected.

Our pipelines and terminals connect to other pipelines, terminals and facilities owned and operated by unaffiliated third parties, including ExxonMobil Corporation, Chevron Corporation, Enterprise Products Partners L.P. and others. The continuing operation of such third-party pipelines, terminals and other facilities is not within our control. For example:

- all of the southbound volumes to be shipped on our Paline Pipeline System are delivered through a third-party terminal;
- the temporary suspension of crude oil shipments on a damaged pipeline owned by a third-party operator that began in April 2012 caused, and its after-effects may continue to cause, volumes on our Lion Pipeline System to be below historical volumes; and
- our Big Sandy terminal is currently not operational because a pipeline owned by a third party, which is necessary for the use of the terminal, is out of service.

These pipelines, terminals and other facilities may become unavailable because of testing, turnarounds, line repair, reduced operating pressure, lack of operating capacity, regulatory requirements, curtailments of receipt or deliveries due to insufficient capacity or because of damage from hurricanes or other operational hazards. In addition, we do not have interconnect agreements with all of these pipelines, terminals and other facilities and the interconnect agreements we do have may be terminated in certain circumstances, including circumstances beyond our control, and on short notice. For example, our customer for the southbound capacity of our Paline Pipeline System is required to make only payments of $229,000 per month in 2012 for this capacity until the final segment of the reversal of the Paline Pipeline System is completed and we enter into a connection agreement with an affiliate of the customer to connect our system with such affiliate's tanks. We completed our work on the fourth segment of the reversal in October 2012 and are currently waiting for our customer to complete its work on its tanks so that we can enter into the connection agreement. Because we have completed our necessary work, we believe we are owed the full payment under the contract, beginning in November 2012 but our customer has only paid $229,000 per month in 2012. See "Commercial Agreements —Commercial Agreements with Third Parties—Pipelines and Transportation—Paline Pipeline System Capacity Reservation." Pursuant to the omnibus agreement, Delek has agreed to indemnify us during the period from November 1, 2012 through December 31, 2013 for any lost service fees attributable to the failure to complete the reversal and execute the connection agreement. If we do not complete the reversal and execute the connection agreement by December 31, 2013, our financial condition, results of operations, cash flows and ability to make distributions to our uintholders could be adversely affected. In addition, if any of these pipelines, terminals or other facilities become unable to receive or transport crude oil or refined products, we may be unable to perform our obligations under our commercial agreements with Delek and third parties, and our financial condition, results of operations, cash flows and ability to make distributions to our unitholders could be adversely affected.

Similarly, if additional shippers begin transporting volumes of refined products or crude oil over interconnecting pipelines, the allocations to us and other existing shippers on these interconnecting pipelines could be reduced, which could also reduce volumes distributed through our terminals or transported through our crude oil pipelines. Allocation reductions of this nature are not infrequent and are beyond our control. Any significant reduction in volumes would adversely affect our revenues and cash flow and our ability to make distributions to our unitholders.

An interruption or termination of supply and delivery of refined products to our wholesale marketing business could result in a decline in our sales and profitability.

In our west Texas wholesale marketing business, we sell refined products produced by refineries owned by unaffiliated third parties. In 2012, we received substantially all of our supply of refined products for our west Texas wholesale business from two suppliers, Noble Petro and Magellan. We could experience an interruption or termination of supply or delivery of refined products if our suppliers partially or completely ceased operations, temporarily or permanently, or ceased to supply us with refined products for any reason. The ability of these refineries and our suppliers to supply refined products to us could be disrupted by anticipated events such as scheduled upgrades or maintenance, as well as events beyond their control, such as unscheduled maintenance, fires, floods, storms, explosions, power outages, accidents, acts of terrorism or other catastrophic events, labor difficulties and work stoppages, governmental or private party litigation, or legislation or regulation that adversely impacts refinery operations. A reduction in the volume of refined products supplied to our wholesale business would likely adversely affect our sales and profitability.

Fluctuations in the prices of refined petroleum products that we purchase and sell in our west Texas wholesale marketing business could materially affect our results of operations.

In our west Texas wholesale marketing business, for the year ended December 31, 2012, approximately 27.1% of the refined products we resold to our customers were purchased under our agreement with Magellan. Significant fluctuations in market prices of these products during the period between our purchase from Magellan and subsequent resale to customers could result in losses or lower profits from these activities, thereby reducing the amount of cash we generate and our ability to pay cash distributions. Additionally, significant fluctuations in market prices of these refined products could result in significant unrealized gains or losses to the extent we enter into transactions to hedge our commodity exposure. To the extent these transactions have not been designated as hedges for accounting purposes, the associated non-cash unrealized gains and losses would directly impact our results of operations.

We are exposed to the credit risks and certain other risks of our key customers, including Delek, and any material nonpayment or nonperformance by our key customers could reduce our ability to make distributions to our unitholders.

We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. Any material nonpayment or nonperformance by our key customers, including Delek or Aron, could reduce our ability to make distributions to our unitholders.

If any of our key customers default on their obligations to us, our financial results could be adversely affected. Furthermore, some of our customers may be highly leveraged and subject to their own operating and regulatory risks. Any loss of our key customers, including Delek, could reduce our ability to make distributions to our unitholders.

Restrictions in our revolving credit facility could adversely affect our business, financial condition, results of operations and ability to make quarterly cash distributions to our unitholders.

Our revolving credit facility limits our ability to, among other things:

- incur or guarantee additional debt;
- incur certain liens on assets;
- dispose of assets;
- make certain cash distributions or redeem or repurchase units;
- change the nature of our business;
- engage in certain mergers or acquisitions;
- make certain investments and acquisitions; and
- enter into non arms-length transactions with affiliates.

Our credit facility contains covenants requiring us to maintain certain financial ratios. Our ability to meet those financial ratios can be affected by events beyond our control, and we cannot assure you that we will meet those ratios. In addition, our credit facility contains events of default customary for agreements of this nature, including the occurrence of a change of control (which will occur if, among other things, (i) Delek ceases to own and control legally and beneficially at least 51% of the equity interests of our general partner, (ii) Delek Logistics GP, LLC ceases to be our general partner or (iii) we fail to own and control legally and beneficially 100% of the equity interests of any other borrower under our credit facility, unless otherwise permitted thereunder).

The provisions of our credit facility may affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with the provisions of our credit facility could result in a default or an event of default that could enable our lenders to declare the outstanding principal of that debt, together with accrued and unpaid interest and other outstanding amounts, to be immediately due and payable. Such event of default would also permit our lenders to foreclose on our assets serving as collateral for our obligations under the credit facility. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full, and our unitholders could experience a partial or total loss of their investment. The credit facility also has cross-default provisions that will apply to any other material indebtedness we may have.

Our debt levels may limit our flexibility to obtain financing and to pursue other business opportunities.

As of December 31, 2012, we had $90.0 million in debt outstanding. This debt was incurred in connection with our cash distribution to Delek as part of the Offering, at which time we agreed to retain at least $90.0 million in outstanding debt, either under our credit facility or as a result of certain refinancings thereof, until November 2015. We have the ability to incur additional debt, however such ability is subject to limitations in our revolving credit facility. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- our funds available for operations, future business opportunities and distributions to unitholders will be reduced by that portion of our cash flow required to make payments on our debt and any interest thereon;
- we may be more vulnerable to competitive pressures or a downturn in our business or the economy generally; and
- our flexibility in responding to changing business and economic conditions may be limited.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, which is within our control, or such as reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets or seeking additional equity capital, which actions we may not be able to effect on satisfactory terms or at all.

Increases in interest rates could adversely impact the price of our common units, our ability to issue equity or incur debt for acquisitions or other purposes and our ability to make cash distributions at our intended levels.

Floating interest rates on our existing credit facility, to the extent not hedged, and interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. As with other yield-oriented securities, our unit price is impacted by the level of our cash distributions and implied distribution yield. The distribution yield is often used by investors to compare and rank yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our common units, and a rising interest rate environment could have an adverse impact on the price of our common units, our ability to issue equity or incur debt for acquisitions or other purposes and our ability to make cash distributions at our intended levels.

Significant portions of our pipeline systems have been in service for several decades. There could be service interruptions due to unknown events or conditions or increased maintenance or repair expenses and downtime associated with our pipelines that could have a material adverse effect on our business and results of operations.

Significant portions of our pipeline systems and our SALA Gathering System have been in service for several decades. The age and condition of our systems could result in increased maintenance or repair expenditures, and any downtime associated with increased maintenance and repair activities could materially reduce our revenue. Any significant increase in maintenance and repair expenditures or loss of revenue due to the age or condition of our systems could adversely affect our business and results of operations and our ability to make cash distributions to our unitholders.

Our right of first offer to acquire certain of Delek’s existing logistics assets and certain assets that it may acquire or construct in the future is subject to risks and uncertainty, and ultimately we may not acquire any of those assets.

The omnibus agreement provides us with a right of first offer until November 2022 on certain of Delek’s existing logistics assets and certain assets that it may acquire or construct in the future, subject to certain exceptions. The consummation and timing of any future acquisitions pursuant to this right will depend on, among other things, Delek’s willingness to offer such assets for sale and obtain any necessary consents, our ability to negotiate acceptable purchase agreements and commercial agreements with respect to such assets and our ability to obtain financing on acceptable terms. We can offer no assurance that we will be able to successfully consummate any future acquisitions pursuant to our right of first offer, and Delek is under no obligation to accept any offer that we may choose to make. In addition, we may decide not to exercise our right of first offer if and when any assets are offered for sale, and our decision will not be subject to unitholder approval. In addition, our right of first offer may be terminated by Delek at any time in the event that it no longer controls our general partner.

If we are unable to make acquisitions on economically acceptable terms from Delek or third parties, our future growth could be limited, and any acquisitions we may make may reduce, rather than increase, our cash flows and ability to make distributions to unitholders.

A portion of our strategy to grow our business and increase distributions to unitholders is dependent on our ability to make acquisitions that result in an increase in cash flow. If we are unable to make acquisitions from Delek or third parties, because we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts, we are unable to obtain financing for these acquisitions on economically acceptable terms, we are outbid by competitors or we or the seller are unable to obtain any necessary consents, our future growth and ability to increase distributions to unitholders may be limited. Furthermore, even if we do consummate acquisitions that we believe will be accretive, they may in fact result in a decrease in cash flow. Any acquisition involves potential risks, including, among other things:

- mistaken assumptions about revenues and costs, including synergies;
- the assumption of unknown liabilities;

- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt;
- the diversion of management's attention from other business concerns;
- unforeseen difficulties operating in new product areas or new geographic areas; and
- customer or key employee losses at the acquired businesses.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and unitholders will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

We may be unsuccessful in integrating the operations of the assets we have acquired or of any future acquisitions with our existing operations, and in realizing all or any part of the anticipated benefits of any such acquisitions.

From time to time, we evaluate and acquire assets and businesses that we believe complement our existing assets and businesses. Acquisitions may require substantial capital or the incurrence of substantial indebtedness. Our capitalization and results of operations may change significantly as a result of future acquisitions. Acquisitions and business expansions involve numerous risks, including difficulties in the assimilation of the assets and operations of the acquired businesses, inefficiencies and difficulties that arise because of unfamiliarity with new assets and the businesses associated with them and new geographic areas and the diversion of management's attention from other business concerns. Further, unexpected costs and challenges may arise whenever businesses with different operations or management are combined, and we may experience unanticipated delays in realizing the benefits of an acquisition, if at all. Also, following an acquisition, we may discover previously unknown liabilities associated with the acquired business or assets for which we have no recourse under applicable indemnification provisions.

We may incur significant costs and liabilities as a result of pipeline integrity management program testing and related repairs.

Certain of our pipeline facilities are subject to the pipeline safety regulations of PHMSA at the DOT. PHMSA regulates the design, construction, testing, operation, maintenance and emergency response of crude oil, petroleum products and other hazardous liquid pipeline facilities under 49 C.F.R. Part 195.

Pursuant to the Pipeline Safety Improvement Act of 2002, as reauthorized and amended by the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 ("PIPES Act"), PHMSA has adopted regulations requiring pipeline operators to develop integrity management programs for hazardous liquids pipelines located where a leak or rupture could affect "high consequence areas," which are populated or environmentally sensitive areas. Pursuant to the PIPES Act, PHMSA issued regulations on May 5, 2011, that would, with limited exceptions, subject all low-stress hazardous liquids pipelines, regardless of location or size, to PHMSA's pipeline safety regulations and would subject those low-stress hazardous liquids pipelines within one half mile of an environmentally sensitive area to the integrity management requirements. The integrity management regulations require operators, including us, to:

- perform ongoing assessments of pipeline integrity;
- identify and characterize applicable threats to pipeline segments that could impact a high consequence area;
- maintain processes for data collection, integration and analysis;
- repair and remediate pipelines as necessary; and
- implement preventive and mitigating actions.

We may incur significant costs and liabilities associated with compliance with the pipeline safety regulations and any corresponding repair, remediation, preventive or mitigation measures required for our non-exempt pipeline facilities, including lost cash flows resulting from shutting down our pipelines during the pendency of such repairs.

Moreover, changes to pipeline safety laws and regulations that result in more stringent or costly safety standards could have a material adverse effect on us and similarly situated midstream operators. On January 3, 2012, President Obama signed the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011, which (i) increases the maximum civil penalties for pipeline safety administrative enforcement actions, (ii) requires the Secretary of Transportation to study and report on the expansion of integrity management requirements, the sufficiency of existing gathering line regulations to ensure safety, and the use of leak detection systems by hazardous liquid pipelines, (iii) requires pipeline operators to verify their records on maximum allowable operating pressure and (iv) imposes new emergency response and incident notification requirements. The provisions of this Act and other changes to pipeline safety laws and regulations could require us to pursue additional capital projects or conduct maintenance programs on an accelerated basis, any or all of which requirements could result in our incurring increased operating costs that could be significant and have a material adverse effect on our financial position or results of operations.

In addition, many states have adopted regulations similar to existing DOT regulations for hazardous liquids pipelines within their state. These regulations can apply to pipeline facilities exempt from PHMSA jurisdiction as well as intrastate pipeline facilities subject to PHMSA jurisdiction, but for which the state has been certified by PHMSA to inspect, regulate and enforce the regulations for the intrastate facilities.

Should we fail to comply with PHMSA or applicable state regulations, we could be subject to penalties and fines.

Our expansion of existing assets and construction of new assets may not result in revenue increases and will be subject to regulatory, environmental, political, legal and economic risks, which could adversely affect our results of operations and financial condition.

A portion of our strategy to grow and increase distributions to unitholders is dependent on our ability to expand existing assets and to construct additional assets. We have no material commitments for expansion or construction projects as of the date of this Annual Report on Form 10-K. The construction of a new pipeline or terminal or the expansion of an existing pipeline or terminal involves numerous regulatory, environmental, political and legal uncertainties, most of which are beyond our control. If we undertake these types of projects, they may not be completed on schedule or at all or at the budgeted cost. Moreover, we may not receive sufficient long-term contractual commitments from customers to provide the revenue needed to support such projects. Even if we receive such commitments, we may not realize an increase in revenue for an extended period of time. For instance, if we build a new pipeline, the construction will occur over an extended period of time, and we will not receive any material increases in revenues until after completion of the project, if at all. Moreover, we may construct facilities to capture anticipated future growth in production in a region or gain access to crude supplies at lower costs and such growth or access may not materialize. As a result, new facilities may not be able to attract enough throughput to achieve our expected investment return, which could adversely affect our results of operations and financial condition and our ability to make distributions to our unitholders.

We do not own all of the land on which our pipelines and facilities are located, which could result in disruptions to our operations.

We do not own all of the land on which our pipelines and terminal facilities are located, and we are therefore subject to the possibility of more onerous terms and/or increased costs to retain necessary land use if we do not have valid rights-of-way, if such rights-of-way lapse or terminate or if our facilities are not properly located within the boundaries of such rights-of-way. Although many of these rights are perpetual in nature, we occasionally obtain the rights to construct and operate our pipelines on land owned by third parties and governmental agencies for a specific period of time. If we are unsuccessful in renegotiating rights-of-way, we may have to relocate our facilities. A loss of rights-of-way or a relocation could have a material adverse effect on our business, financial condition, results of operations and cash flows and our ability to make distributions to our unitholders.

Whether we have the power of eminent domain for our pipelines varies from state to state, depending upon the type of pipeline (for example, crude oil or refined products) and the laws of the particular state. In either case, we must compensate landowners for the use of their property and, in eminent domain actions, such compensation may be determined by a court. Our inability to exercise the power of eminent domain could negatively affect our business if we were to lose the right to use or occupy the property on which our pipelines are located.

We operate in a highly regulated industry and increased costs of compliance with, or liability for violation of, existing or future laws, regulations and other requirements could significantly increase our costs of doing business, thereby adversely affecting our profitability.

Our industry is subject to extensive laws, regulations and other requirements including, but not limited to, those relating to the environment, safety, pipeline tariffs, employment, labor, immigration, minimum wages and overtime pay, health care and benefits, working conditions, public accessibility and other requirements. These laws and regulations are enforced by federal agencies including the EPA, the DOT / PHMSA, the Federal Motor Carrier Safety Administration, or FMCSA, the Occupational Safety and Health Act, or OSHA, and the FERC and state agencies such as the Texas Commission on Environmental Quality, the Railroad Commission of Texas, the Arkansas Department of Environmental Quality and the Tennessee Department of Environment and Conservation, as well as numerous other state and federal agencies. Ongoing compliance with, or a violation of, these laws, regulations and other requirements could have a material adverse effect on our business, financial condition and results of operations.

We believe that our operations are in substantial compliance with applicable laws and regulations. However, these laws and regulations, and the interpretation or enforcement thereof, are subject to 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. Under various federal, state and local environmental requirements, as the owner or operator of terminals and pipelines, we may be liable for the costs of removal or remediation of contamination at our existing locations, whether we knew of, or were responsible for, the presence of such contamination. We have incurred such liability in the past and some of our locations are the subject of ongoing remediation and/or monitoring projects. The failure to timely report and properly remediate contamination may subject us to liability to third parties and may adversely affect our ability to sell or rent our property or to borrow money using our property as collateral. Additionally, we may be liable for the costs of remediating third-party sites where hazardous substances from our operations have been transported for treatment or disposal, regardless of whether we own or operate that site. In the future, we may incur substantial expenditures for investigation or remediation of contamination that has not yet been discovered at our current or former locations or locations that we may acquire.

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 the cost to comply with applicable laws and regulations, fines and penalties, natural resource damages and claims made by employees, neighboring landowners and other third parties for personal injury and property damage. We may experience future catastrophic sudden or gradual releases into the environment from our pipelines and terminals or discover historical releases that were previously unidentified or not assessed. Although our inspection and testing programs are designed to prevent, detect and address these releases promptly, any damages and liabilities incurred due to any future environmental releases from our assets have the potential to substantially affect our business.

Environmental regulation is becoming more stringent, and new environmental laws and regulations are continuously being enacted or proposed and interpretations of existing requirements may change from time to time. While it is impractical to predict the impact that future environmental, health and safety requirements or changed interpretations of existing requirements may have, such future activity may result in material expenditures to ensure our continued compliance. Such future activity could also adversely affect our ability to expand production or reduce demand for our products or services.

We could incur substantial costs or disruptions in our business if we cannot obtain or maintain necessary permits and authorizations or otherwise comply with health, safety, environmental and other laws and regulations.

Our operations require numerous permits and authorizations under various laws and regulations. These authorizations and permits are subject to revocation, renewal or modification and can require operational changes to limit impacts or potential impacts on the environment and/or health and safety. A violation of authorization or permit conditions or other legal or regulatory requirements could result in substantial fines, criminal sanctions, permit revocations, injunctions, and/or facility shutdowns. In addition, material modifications of our operations could require modifications to our existing permits or upgrades to our existing pollution control equipment. Any or all of these matters could have a negative effect on our business, results of operations and cash flows.

Climate change legislation or regulations restricting emissions of greenhouse gases could result in increased operating and capital costs and reduced demand for our products and services.

In December 2009, the EPA published its findings that emissions of greenhouse gases, or GHGs, present a danger to public health and the environment because emissions of such gases are, according to the EPA, contributing to the warming of the Earth’s atmosphere and other climatic conditions. Based on these findings, the EPA adopted two sets of regulations that restrict emissions of GHGs under existing provisions of the federal Clean Air Act, including one that requires a reduction in emissions of GHGs from motor vehicles and another that regulates GHG emissions from certain large stationary sources under the Clean Air Act Prevention of Significant Deterioration (“PSD”) and Title V permitting programs. In addition, the EPA expanded its existing GHG emissions reporting rule to include onshore oil and natural gas processing, transmission, storage, and distribution activities, beginning in 2012 for emissions occurring in 2011. Congress has also from time to time considered legislation to reduce emissions of GHGs. Although it is not possible to predict the requirements of any GHG legislation that may be enacted, any laws or regulations that may be adopted to restrict or reduce GHG emissions may require us to incur increased operating costs. If we are unable to maintain sales of our refined products at a price that reflects such increased costs, there could be a material adverse effect on our business, financial condition and results of operations. Further, any increase in the prices of refined products resulting from such increased costs could have a material adverse effect on our business, financial condition or results of operations. Moreover, GHG regulation could also impact the consumption of refined products, thereby affecting the demand for our services.

In 2010, the EPA and the National Highway Transportation Safety Administration (NHTSA) finalized new standards, raising the required Corporate Average Fuel Economy, or CAFE, standard of the nation’s passenger fleet by 40% to approximately 35 miles per gallon by 2016 and imposing the first ever federal GHG emissions standards on cars and light trucks. In September 2011, the EPA and the Department of Transportation finalized first-time standards for fuel economy of medium and heavy duty trucks. On August 28, 2012, the EPA and NHTSA announced final regulations that mandated further decreases in passenger vehicle GHG emissions and increases in fuel economy beginning with 2017 model year vehicles and increasing to the equivalent of 54.5 miles per gallon by 2025. Such increases in fuel economy standards and potential electrification of the vehicle fleet, along with mandated increases in use of renewable fuels discussed above, could result in decreasing demand for petroleum fuels. Decreasing demand for petroleum fuels could materially affect profitability at Delek’s refineries and convenience stores, which could adversely impact our business, results of operations and cash flows.

Our operations are subject to federal and state laws and regulations relating to product quality specifications, and we could be subject to damages based on claims brought against us by our customers or lose customers as a result of the failure of products we distribute to meet certain quality specifications.

Various federal and state agencies prescribe specific product quality specifications for refined products, including vapor pressure, sulfur content, ethanol content and biodiesel content. Changes in product quality specifications or blending requirements could reduce our throughput volume, require us to incur additional handling costs or require capital expenditures. For example, mandated increases in use of renewable fuels could require the construction of additional storage and blending equipment. If we are unable to recover these costs through increased revenues, our cash flows and ability to pay cash distributions to our unitholders could be adversely affected. Violations of product quality laws attributable to our operations could subject us to significant fines and penalties as well as negative publicity. In addition, changes in the product quality of the products we receive on our pipeline system could reduce or eliminate our ability to blend products.

We have a responsibility to ensure the quality and purity of the products loaded at our loading racks. Off specification product distributed for public use, even if not a violation of specific product quality laws, could result in poor engine performance or even engine damage. This type of incident could result in liability claims regarding damages caused by the off specification fuel or could result in negative publicity, impacting our ability to retain existing customers or to acquire new customers, any of which could have a material adverse impact on our results of operations and cash flows.

If our general partner or Delek loses any of its key personnel, our general partner's ability to manage our business on our behalf and continue our growth could be negatively impacted.

Our future performance depends to a significant degree upon the continued contributions of our general partner's officers and key technical personnel of Delek. Neither we nor our general partner nor Delek currently maintains key person life insurance policies for any of such persons. The loss or unavailability to us of any of these officers or key technical employees could significantly harm us. Our general partner and Delek face competition for these professionals from our competitors, our customers and other companies operating in our industry. To the extent that the services of any of our general partner's officers and/or the key technical personnel would be unavailable for any reason, we or our general partner or Delek would be required to hire other personnel to manage and operate our business. We cannot be assured that we, our general partner or Delek would be able to locate or employ such qualified personnel on acceptable terms or at all.

A terrorist attack on our assets, or threats of war or actual war, may hinder or prevent us from conducting our business.

Terrorist attacks in the United States, as well as events occurring in response or similar to or in connection with such attacks, including political instability in various Middle Eastern countries, may harm our business. Energy-related assets (which could include pipelines and terminals such as ours) may be at greater risk of future terrorist attacks than other possible targets in the United States. In addition, the State of Israel, where Delek Group is based, has suffered armed conflicts and political instability in recent years. We may be more susceptible to terrorist attack as a result of our connection to an Israeli owner. In the future, certain of the directors of our general partner may reside in Israel. A direct attack on our assets, Delek's assets or the assets of others used by us could have a material adverse effect on our business, financial condition and results of operations. In addition, any terrorist attack or continued political instability in the Middle East could have an adverse impact on energy prices, including prices for the crude oil and other feedstocks we transport and refined petroleum products, and an adverse impact on the margins from our operations. Disruption or significant increases in energy prices could also result in government-imposed price controls.

Further, changes in the insurance markets attributable to terrorist attacks could make certain types of insurance more difficult for us to obtain. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital, including our ability to repay or refinance debt.

Our customers' operating results are seasonal and generally lower in the first and fourth quarters of the year. Our customers depend on favorable weather conditions in the spring and summer months.

The volume and throughput of crude oil and refined products transported through our pipelines and sold through our terminals and to third parties is directly affected by the level of supply and demand for all of such products in the markets served directly or indirectly by our assets. Supply and demand for such products fluctuate during the calendar year. Demand for gasoline, for example, is generally higher during the summer months than during the winter months due to seasonal increases in motor vehicle traffic, while demand for asphalt products, which is a substantial product of Delek's El Dorado Refinery, is lower in the winter months. In addition, our refining customers, such as Delek, occasionally slow or shut down operations to perform planned maintenance during the winter, when demand for their products is lower. Accordingly, these factors can affect the need for crude oil or finished products by our customers and therefore limit our volumes or throughput during these periods, and could adversely affect our customers' business, financial condition and results of operations, which may adversely affect our business, financial condition and results of operations.

Our exposure to direct commodity price risk and interest rate risk may increase in the future. We may incur losses as a result of our forward contract activities and derivative transactions.
Although we intend to enter into fixed-fee contracts with new transportation and terminalling customers in the future, our efforts to obtain such contractual terms may not be successful. In addition, we may acquire or develop additional midstream assets in the future that do not provide services primarily based on capacity reservation charges or other fixed-fee arrangements and therefore have a greater exposure to fluctuations in commodity price risk than our current operations. Increased future exposure to the volatility of commodity prices could have a material adverse effect on our business, financial condition, results of operations and ability to make quarterly cash distributions to our unitholders.
To partially mitigate the risk of various financial exposures inherent in our business, including commodity price risk and interest rate risk, we selectively use derivative financial instruments, such as fuel-related derivative transactions, interest rate swaps and interest rate cap agreements. In connection with such derivative transactions, we may be required to make payments to maintain margin accounts and to settle the contracts at their value upon termination. The maintenance of required margin accounts and the settlement of derivative contracts at termination could cause us to suffer losses or limited gains. In particular, derivative transactions could expose us to the risk of financial loss upon unexpected or unusual variations in the sales price of wholesale gasoline. We cannot assure you that the strategies underlying these transactions will be successful. If any of the instruments we utilize to manage our exposure to various types of risk is not effective, we may incur losses.
The adoption of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, could have an adverse effect on our ability to use derivatives to reduce the effect of commodity price risk, interest rate and other risks associated with our business.
The U.S. Congress recently adopted comprehensive financial reform legislation that, among other things, establishes comprehensive federal oversight and regulation of over-the-counter derivatives and many of the entities that participate in that market. Although the Dodd-Frank Act was enacted on July 21, 2010, the Commodity Futures Trading Commission, or CFTC, and the SEC, along with certain other regulators, must promulgate final rules and regulations to implement many of the Dodd-Frank Act's provisions relating to over-the-counter derivatives. While some of these rules have been finalized, others have not; and, as a result, the final form and timing of the implementation of the new regulatory regime affecting commodity derivatives remains uncertain.
In particular, on October 18, 2011, the CFTC adopted final rules under the Dodd-Frank Act establishing position limits for certain energy commodity futures and options contracts and economically equivalent swaps, futures and options. The position limit levels set the maximum amount of covered contracts that a trader may own or control separately or in combination, net long or short. The final rules also contain limited exemptions from position limits, which will be phased in over time for certain bona fide hedging transactions and positions that were established in good faith before the initial limits become effective. On December 2, 2011, the International Swaps and Derivatives Association, Inc. and the Securities Industry and Financial Markets Association filed a legal challenge to the final rules, claiming, among other things, that the rules may adversely impact commodities markets and market participants, including end-users, by reducing liquidity and increasing price volatility. In response to this legal challenge, the position limits rules were vacated by a United States District Court on September 28, 2012. The CFTC has appealed that decision to the United States Court of Appeals for the District of Columbia Circuit, and that appeal is pending before the court. Regardless of the outcome of the appeal, the CFTC could promulgate new rules that address the defects identified by the District Court.
If these position limits rules go into effect in the future, the timing of implementation of the final rules on position limits, and their applicability to, and impact on, us remain uncertain, and there can be no assurance that they will not have a material adverse impact on us by affecting the prices of or market for commodities relevant to our operations and/or by reducing the availability to us of commodity derivatives.
The Dodd-Frank Act also imposes a number of other new requirements on certain over-the-counter derivatives and subjects certain swap dealers and major swap participants to significant new regulatory requirements, which in certain cases may cause them to conduct their activities through new entities that may not be as creditworthy as our current counterparties, all of which may have a material adverse effect on us. The impact of this new regulatory regime on the availability, pricing and terms and conditions of commodity derivatives remains uncertain, but there can be no

assurance that it will not have a material adverse effect on our ability to hedge our exposure to commodity prices.
In addition, under Dodd-Frank swap dealers and major swap participants will be required to collect initial and variation margin from certain end-users of over-the-counter derivatives, and requires many trades that are currently done bilaterally to be cleared through a clearing house. The rules implementing many of these requirements have not all been finalized and therefore the timing of their implementation and their applicability to us remains uncertain. Depending on the final rules ultimately adopted, we might in the future be required to post collateral for some or all of our derivative transactions, which could reduce our ability to use cash or other assets for capital expenditures or other partnership purposes and reduce our ability to execute strategic hedges to mitigate commodity price uncertainty and protect cash flows.

We rely on information technology in our operations, and any material failure, inadequacy or interruption of that technology could harm our business.

We inherited information technology systems and controls that monitor the movement of petroleum products through our pipeline systems. Information technology system failures, network disruptions (whether intentional by a third party or due to natural disaster), breaches of network or data security, or disruption or failure of the network system used to monitor and control pipeline operations could result in environmental damage, operational disruptions, regulatory enforcement or private litigation. Our computer systems, including our back-up systems, could be damaged or interrupted by power outages, computer and telecommunications failures, computer viruses, internal or external security breaches, events such as fires, earthquakes, floods, tornadoes and hurricanes, or errors by our employees. Further, the failure of any of our systems to operate effectively, or problems we may experience with transitioning to upgraded or replacement systems, could significantly harm our business and operations and cause us to incur significant costs to remediate such problems. There can be no assurance that a system failure or data security breach will not have a material adverse effect on our financial condition and results of operations.

Transportation on certain of our pipelines is subject to federal or state rate and service regulation, and the imposition and/or cost of compliance with such regulation could adversely affect our operations and cash flows available for distribution to our unitholders.

The rates and terms and conditions of service on certain of our pipelines are subject to regulation by the FERC under the Interstate Commerce Act or by the state regulatory commissions in the states in which we transport crude oil and refined products, including the Railroad Commission of Texas, the Louisiana Public Service Commission and the Arkansas Public Service Commission.

We filed tariffs with the FERC for service on the SALA Gathering System, the Magnolia Pipeline System, the El Dorado Pipeline System and a pipeline that is part of our Lion Oil System and is currently used by one shipper. We have been granted a waiver of FERC's tariff filing requirements for service on the East Texas Crude Logistics System, but remain subject to certain reporting requirements. The FERC regulates interstate transportation under the ICA, the Energy Policy Act of 1992 and the rules and regulations promulgated under those laws. The ICA and its implementing regulations require that tariff rates and terms and conditions of service for interstate service on oil pipelines, including pipelines that transport crude oil and refined products in interstate commerce (collectively referred to as “petroleum pipelines”), be just, reasonable and not unduly discriminatory or preferential. The ICA also requires that such rates and terms and conditions of service be filed with the FERC. Under the ICA, shippers may challenge new or existing rates or services. The FERC is authorized to suspend the effectiveness of a challenged rate that has not yet become effective for up to seven months, though rates are typically not suspended for the maximum allowable period. If the FERC determines that a protested rate is unjust and unreasonable, the FERC will order refunds of amounts charged in excess of the just and reasonable rate. If the FERC determines that a rate challenged by complaint is unjust and unreasonable, reparations may be due for two years prior to the date of the complaint. If any challenge were successful, among other things, the rates that we charge under the tariffs that we intend to file could be reduced and such reductions could have a material adverse effect on our business, results of operations, financial condition and ability to make quarterly cash distributions to our unitholders.

The FERC currently permits, but does not require, regulated pipelines to increase their rates by a percentage factor equal to the change in the producer price index for finished goods plus 2.65 percent. Application of this index factor establishes a change in maximum allowable rate. Interested parties are permitted to protest a proposed index rate increase, and we cannot guarantee that the FERC will accept any such proposed increase if it is protested. In the event the index factor decreases in a given year, we may be required to reduce our rates if they exceed the new maximum allowable rate. The FERC’s indexing methodology is subject to review every five years; the current methodology will remain in place through June 30, 2016. Application of the FERC’s current or any revised indexing methodology may be insufficient to allow us to recover our actual increases in costs. If application of the indexing methodology does not permit a pipeline to recover its costs, the FERC’s regulations generally permit the pipeline to request a rate increase based on its actual cost of service. We cannot guarantee that any such proposed rate increase would be accepted.

The FERC has granted a waiver of the tariff filing and reporting requirements imposed under the ICA for the East Texas Crude Logistics System. The East Texas Crude Logistics System remains subject to the FERC’s jurisdiction under the ICA and is subject to the requirement to maintain books and records in accordance with FERC accounting requirements; we intend to comply with that requirement. If the facts upon which the waiver is based change materially (for example, if an unaffiliated shipper seeks access to our pipelines), the FERC typically requires that pipelines inform it of such changes, which may result in revocation of the waiver. If the FERC in the future revokes the waiver, we will be required, among other things, to file tariffs for service on the East Texas Crude Logistics System. If we file tariffs, we may be required to provide a cost justification for the transportation charge. We would also be required to provide service to all prospective shippers making reasonable requests for service without undue discrimination and to operate in a manner that does not provide any undue preference to shippers. The rates under such tariffs may be insufficient to allow us to recover fully our cost of providing service on the affected pipelines,

which could adversely affect our business, financial condition and results of operations. In addition, regulation by the FERC may subject us to potentially burdensome and expensive operational, reporting and other requirements.
The Federal Trade Commission, the FERC and the CFTC hold statutory authority to monitor certain segments of the physical and futures energy commodities markets. These agencies have imposed broad regulations prohibiting fraud and manipulation of such markets. With regard to our physical sales of oil or other energy commodities, and any related hedging activities that we undertake, we are required to observe the market-related regulations enforced by these agencies, which hold substantial enforcement authority. Failure to comply with such regulations, as interpreted and enforced, could have a material adverse effect on our business, results of operations and financial condition.
While the FERC regulates rates and terms and conditions of service for transportation of crude oil or refined products in interstate commerce by pipeline, state agencies may regulate rates and terms and conditions of service for petroleum pipeline transportation in intrastate commerce. There is not a clear boundary between transportation service provided in interstate commerce, which is regulated by the FERC, and transportation service provided in intrastate commerce, which is not regulated by the FERC. Such determinations are highly fact-dependent and are made on a case-by-case basis. We cannot provide assurance that the FERC will not at some point assert that some or all of the transportation service we provide is within its jurisdiction. If the FERC were successful with any such assertion, its rate-making methodologies may subject us to potentially burdensome and expensive operational, reporting and other requirements. We own pipeline assets in Texas, Arkansas and Louisiana. In Texas, a pipeline, with some exceptions, is required to operate as a common carrier and provide transportation without discrimination. Arkansas provides that all intrastate oil pipelines are common carriers, but it exercises light-handed regulation over petroleum pipelines. In Louisiana, all pipelines conveying petroleum from a point of origin within the state to a destination within the state are declared common carriers. The Louisiana Public Service Commission is empowered with the authority to establish reasonable rates and regulations for the transport of petroleum by a common carrier, mandating public tariffs and providing of transportation without discrimination. State commissions have generally not been aggressive in regulating common carrier pipelines, have generally not investigated the rates or practices of petroleum pipelines in the absence of shipper complaints, and generally resolve complaints informally. If the regulatory commissions in the states in which we operate change their policies and aggressively regulate the rates or terms of service of pipelines operating in those states, it could adversely affect our business, financial condition and results of operations.

Risks Relating to Our Partnership Structure
Our general partner and its affiliates, including Delek, have conflicts of interest with us and limited duties to us and our unitholders, and they may favor their own interests to the detriment of us and our other common unitholders.
Delek owns and controls our general partner and appoints all of the officers and directors of our general partner. All of the initial officers and a majority of the initial directors of our general partner are also officers and/or directors of Delek. Although our general partner has a duty to manage us in a manner that is beneficial to us and our unitholders, the directors and officers of our general partner have a fiduciary duty to manage our general partner in a manner that is beneficial to Delek. Conflicts of interest will arise between Delek and our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts of interest, our general partner may favor its own interests and the interests of Delek over our interests and the interests of our unitholders. These conflicts include the following situations, among others:

- Neither our partnership agreement nor any other agreement requires Delek to pursue a business strategy that favors us or utilizes our assets, including whether to increase or decrease refinery production, whether to shut down or reconfigure a refinery or what markets to pursue or grow. The directors and officers of Delek have a fiduciary duty to make these decisions in the best interests of the stockholders of Delek, which may be contrary to our interests. Delek may choose to shift the focus of its investment and growth to areas not served by our assets.
- Delek, as our primary customer, has an economic incentive to cause us not to seek higher service fees, even if such higher fees could be obtained in arm’s-length, third-party transactions. Furthermore, under our commercial agreements, Delek’s consent is required before we may enter into an agreement with any third party with respect to our assets that serve the El Dorado and Tyler Refineries, and Delek has an incentive to cause us not to pursue such third-party contracts in certain circumstances.

- Our general partner is allowed to take into account the interests of parties other than us, such as Delek, in resolving conflicts of interest.
- All of the initial officers and a majority of the initial directors of our general partner are also officers and/or directors of Delek and will owe fiduciary duties to Delek. These officers will also devote significant time to the business of Delek and will be compensated by Delek accordingly.
- Delek may be constrained by the terms of its debt instruments from taking actions, or refraining from taking actions, that may be in our best interests.

- Our partnership agreement replaces the fiduciary duties that would otherwise be owed by our general partner with contractual standards governing its duties, limits our general partner's liabilities and restricts the remedies available to our unitholders for actions that, without such limitations, might constitute breaches of fiduciary duty.
- Except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval.
- Disputes may arise under our commercial agreements with Delek.
- Our general partner determines the amount and timing of asset purchases and sales, borrowings, issuances of additional partnership units and the creation, reduction or increase of cash reserves, each of which can affect the amount of cash available for distribution to our unitholders.
- Our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is classified as a maintenance capital expenditure, which reduces operating surplus, or an expansion or investment capital expenditure, which does not reduce operating surplus. This determination can affect the amount of cash that is distributed to our unitholders and the ability of the subordinated units to convert to common units. In addition, the inability of Delek to suspend or reduce its obligations under its commercial agreements with us or to claim a force majeure event in certain circumstances until November 7, 2015 increases the likelihood of the conversion of the subordinated units.
- Our general partner determines which costs incurred by it are reimbursable by us.
- Our general partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to accelerate the expiration of the subordination period.
- Our partnership agreement permits us to classify up to $25.0 million as operating surplus, even if it is generated from asset sales, non-working capital borrowings or other sources that would otherwise constitute capital surplus. This cash may be used to fund distributions on our subordinated or general partner units or to our general partner in respect of the incentive distribution rights.
- Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf.
- Our general partner intends to limit its liability regarding our contractual and other obligations.
- Our general partner may exercise its right to call and purchase all of the common units not owned by it and its affiliates if they own more than 80% of the common units.
- Our general partner controls the enforcement of the obligations that it and its affiliates owe to us, including Delek's obligations under the omnibus agreement and its commercial agreements with us.
- Our general partner decides whether to retain separate counsel, accountants or others to perform services for us.
- Our general partner may transfer its incentive distribution rights without unitholder approval.
- Our general partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to our incentive distribution rights without the approval of the conflicts committee of the board of directors of our general partner or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.

Delek may compete with us.

Delek may compete with us. Under our omnibus agreement, Delek and its affiliates has agreed not to engage in, whether by acquisition or otherwise, the business of owning or operating crude oil or refined products pipelines, terminals or storage facilities in the United States that are not within, directly connected to, substantially dedicated to, or otherwise an integral part of, any refinery owned, acquired or constructed by Delek. This restriction, however, does not apply to:

- any assets that were owned by Delek upon the completion of the Offering (including replacements or expansions of those assets);
- any asset or business that Delek acquires or constructs that has a fair market value of less than $5.0 million; and
- any asset or business that Delek acquires or constructs that has a fair market value of $5.0 million or more if we have been offered the opportunity to purchase the asset or business for fair market value not later than six months after

completion of such acquisition or construction, and we decline to do so.

As a result, Delek has the ability to construct assets which directly compete with our assets. The limitations on the ability of Delek to compete with us are terminable by either party if Delek ceases to control our general partner.

Pursuant to the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our general partner or any of its affiliates, including its executive officers and directors and Delek. Any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. This may create actual and potential conflicts of interest between us and affiliates of our general partner and result in less than favorable treatment of us and our common unitholders. Please read "Conflicts of Interest and Duties."

If you are not an eligible holder, your common units may be subject to redemption.

We have adopted certain requirements regarding those investors who may own our common and subordinated units. Eligible holders are limited partners whose (i) federal income tax status is not reasonably likely to have a material adverse effect on the rates that can be charged by us on assets that are subject to regulation by FERC or an analogous regulatory body and (ii) nationality, citizenship or other related status would not create a substantial risk of cancellation or forfeiture of any property in which we have an interest, in each case as determined by our general partner with the advice of counsel. If you are not an Eligible Holder, in certain circumstances as set forth in our partnership agreement, your units may be redeemed by us at the then-current market price. The redemption price will be paid in cash or by delivery of a promissory note, as determined by our general partner.

Our partnership agreement requires that we distribute all of our available cash, which could limit our ability to grow and make acquisitions.

We expect that we will distribute all of our available cash to our unitholders and will rely primarily upon external financing sources, including commercial borrowings and the issuance of debt and equity securities, to fund our acquisitions and expansion capital expenditures. As a result, to the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow.

In addition, because we intend to distribute all of our available cash, our growth may not be as fast as that of businesses that reinvest their available cash to expand ongoing operations. To the extent we issue additional units in connection with any acquisitions or expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per-unit distribution level. There are no limitations in our partnership agreement, and we do not anticipate there being limitations in our new credit facility, on our ability to issue additional units, including units ranking senior to the common units. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which in turn may impact the available cash that we have to distribute to our unitholders.

It may be difficult to serve process on or enforce a United States judgment against those members of the board of directors of our general partner who may reside in Israel.

Certain of the directors of our general partner are able to and may in the future reside in the State of Israel. As a result, it may be difficult to serve legal process within the United States upon any of these persons. It also may be difficult to enforce, both in and outside the United States, judgments obtained in United States courts against these persons in any action, including actions based upon the civil liability provisions of United States federal or state securities laws, because a substantial portion of the assets of these directors is located outside of the United States. Furthermore, there is substantial doubt that the courts of the State of Israel would enter judgments in original actions brought in those courts predicated on U.S. federal or state securities laws.

Our partnership agreement replaces our general partner's fiduciary duties to holders of our common units with contractual standards governing its duties.

Our partnership agreement contains provisions that eliminate the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty law and replace those duties with several different contractual standards. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner, free of any duties to us and our unitholders other than the implied contractual covenant of good faith and fair dealing, which means that a court will enforce the reasonable expectations of the partners where the language in the partnership agreement does not provide for a clear course of action. This provision entitles our general partner to consider only the interests and factors that it desires and relieves it of any duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or our limited partners. Examples of decisions that our general partner may make in its individual capacity include:

- how to allocate corporate opportunities among us and its other affiliates;
- whether to exercise its limited call right;

- whether to seek approval of the resolution of a conflict of interest by the conflicts committee of the board of directors of our general partner;
- how to exercise its voting rights with respect to the units it owns;
- whether to exercise its registration rights;
- whether to elect to reset target distribution levels;
- whether to transfer the incentive distribution rights to a third party; and
- whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement.

By purchasing a common unit, a common unitholder agrees to become bound by the provisions of the partnership agreement, including the provisions discussed above.

Our partnership agreement restricts the remedies available to holders of our common units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that restrict the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty under state fiduciary duty law. For example, our partnership agreement provides that:

- whenever our general partner, the board of directors of our general partner or any committee thereof (including the conflicts committee) makes a determination or takes, or declines to take, any other action in their respective capacities, our general partner, the board of directors of our general partner and any committee thereof (including the conflicts committee), as applicable, is required to make such determination, or take or decline to take such other action, in good faith, meaning that it subjectively believed that the decision was in the best interests of our Partnership, and, except as specifically provided by our partnership agreement, will not be subject to any other or different standard imposed by our partnership agreement, Delaware law, or any other law, rule or regulation, or at equity;
- our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as such decisions are made in good faith;
- our general partner and its officers and directors will not be liable for monetary damages to us or our limited partners resulting from any act or omission unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or its officers and directors, as the case may be, acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and
- our general partner will not be in breach of its obligations under the partnership agreement (including any duties to us or our unitholders) if a transaction with an affiliate or the resolution of a conflict of interest is:

approved by the conflicts committee of the board of directors of our general partner, although our general partner is not obligated to seek such approval;

approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner and its affiliates;

determined by the board of directors of our general partner to be on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or

determined by the board of directors of our general partner to be fair and reasonable to us, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable or advantageous to us.

In connection with a situation involving a transaction with an affiliate or a conflict of interest, any determination by our general partner or its Conflicts Committee must be made in good faith. If an affiliate transaction or the resolution of a conflict of interest is not approved by our common unitholders or the conflicts committee and the board of directors of our general partner determines that the resolution or course of action taken with respect to the affiliate transaction or conflict of interest satisfies either of the standards set forth in the third and fourth subbullets above, then it will be presumed that, in making its decision, the board of directors of our general partner acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the Partnership challenging such determination, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

The administrative services fee and reimbursements due to our general partner and its affiliates for services provided to us or on our behalf will reduce our cash available for distribution to our common unitholders. The amount and timing of such reimbursements will be determined by our general partner.

Prior to making any distribution on our common units, we will reimburse our general partner and its affiliates, including Delek, for costs and expenses they incur and payments they make on our behalf. Under the omnibus agreement, we will pay Delek an annual fee of $2.7 million and reimburse Delek and its subsidiaries for Delek’s provision of various centralized corporate services. Additionally, we will reimburse Delek for direct or allocated costs and expenses incurred on our behalf, including administrative costs, such as compensation expense for those persons who provide services necessary to run our business, and insurance expenses. We also expect to incur incremental annual general and administrative expense as a result of being a publicly traded partnership. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us. The reimbursement of expenses and payment of fees, if any, to our general partner and its affiliates will reduce the amount of available cash to pay cash distributions to our common unitholders.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.
Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. Unitholders will have no right on an annual or ongoing basis to elect our general partner or its board of directors. Rather, the board of directors of our general partner will be appointed by Delek. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.
Even if holders of our common units are dissatisfied, they cannot remove our general partner without its consent.
Unitholders are unable to remove our general partner without its consent because our general partner and its affiliates, including Delek, own sufficient units to be able to prevent its removal. The vote of the holders of at least 66 2/3% of all outstanding common and subordinated units voting together as a single class is required to remove our general partner. As of March 1, 2013, Delek owned 62.4% of our outstanding common and subordinated units. Also, if our general partner is removed without cause during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on our common units will be extinguished. A removal of our general partner under these circumstances would adversely affect our common units by prematurely eliminating their distribution and liquidation preference over our subordinated units, which would otherwise have continued until we had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding our general partner liable to us or any limited partner for actual fraud or willful misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business, so the removal of our general partner because of unitholder dissatisfaction with the performance of our general partner in managing the Partnership will most likely result in the termination of the subordination period and conversion of all subordinated units to common units.
Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.
Unitholders' voting rights are further restricted by a provision of our partnership agreement providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter.
Our general partner's interest in us and the control of our general partner may be transferred to a third party without unitholder consent.
Our partnership agreement does not restrict the ability of Delek to transfer all or a portion of its general partner interest or its ownership interest in our general partner to a third party. Our general partner, or the new owner of our general partner, would then be in a position to replace the board of directors and officers of our general partner with its own designees and thereby exert significant control over the decisions made by the board of directors and officers of our general partner.
The incentive distribution rights of our general partner may be transferred to a third party without unitholder consent.
Our general partner may transfer its incentive distribution rights to a third party at any time without the consent of our unitholders. If our general partner transfers its incentive distribution rights to a third party but retains its general partner interest, our general partner may not have the same incentive to grow our partnership and increase quarterly distributions to unitholders over time as it would if it had retained ownership of its incentive distribution rights. For example, a transfer of incentive distribution rights by our general partner could reduce the likelihood of Delek selling or contributing additional assets to us, as Delek would have less of an economic incentive to grow our business, which in turn would impact our ability to grow our asset base.
We may issue additional units without unitholder approval, which would dilute unitholder interests

Our partnership agreement does not limit the number of additional limited partner interests, including limited partner interests that rank senior to the common units, that we may issue at any time without the approval of our unitholders. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our existing unitholders’ proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;

- because the amount payable to holders of incentive distribution rights is based on a percentage of the total cash available for distribution, the distributions to holders of incentive distribution rights will increase even if the per-unit distribution on common units remains the same;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

Delek may sell units in the public or private markets, and such sales could have an adverse impact on the trading price of the common units.

Delek holds 2,799,258 common units and 11,999,258 subordinated units. All of the subordinated units will convert into common units at the end of the subordination period and may convert earlier under certain circumstances. In addition, we have agreed to provide Delek with certain registration rights. The sale of these units in the public or private markets could have an adverse impact on the price of the common units or on any trading market that may develop.

Our general partner intends to limit its liability regarding our obligations.

Our general partner intends to limit its liability under contractual arrangements so that the counterparties to such arrangements have recourse only against our assets and not against our general partner or its assets. Our general partner may therefore cause us to incur indebtedness or other obligations that are nonrecourse to our general partner. Our partnership agreement permits our general partner to limit its liability, even if we could have obtained more favorable terms without the limitation on liability. In addition, we are obligated to reimburse or indemnify our general partner to the extent that it incurs obligations on our behalf. Any such reimbursement or indemnification payments would reduce the amount of cash otherwise available for distribution to our unitholders.

Our general partner has a limited call right that may require our unitholders to sell their units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of our common units, our general partner will have the right, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price that is not less than their then-current market price, as calculated pursuant to the terms of our partnership agreement. As a result, our unitholders may be required to sell their common units at an undesirable time or price and may not receive any positive return on their investment. Our unitholders may also incur a tax liability upon any such sale of their units to Delek. At March 1, 2013, Delek owned approximately 2,799,258, or 23.3% of our outstanding common units. At the end of the subordination period, assuming no additional issuances of common units (other than upon the conversion of the subordinated units), Delek will indirectly own approximately 61.7% of our outstanding common units.

Our general partner, or any transferee holding a majority of the incentive distribution rights, may elect to cause us to issue common units to it in connection with a resetting of the minimum quarterly distribution and the target distribution levels related to the incentive distribution rights, without the approval of the conflicts committee of our general partner or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.

The holder or holders of a majority of the incentive distribution rights, which is currently our general partner, have the right, at any time when there are no subordinated units outstanding and such holders have received incentive distributions at the highest level to which they are entitled (48.0%) for each of the prior four consecutive fiscal quarters (and the amount of each such distribution did not exceed adjusted operating surplus for each such quarter), to reset the minimum quarterly distribution and the initial target distribution levels at higher levels based on our cash distribution at the time of the exercise of the reset election. Following a reset election, the minimum quarterly distribution will be reset to an amount equal to the average cash distribution per unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the “reset minimum quarterly distribution”), and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution. Our general partner has the right to transfer the incentive distribution rights at any time, in whole or in part, and any transferee holding a majority of the incentive distribution rights shall have the same rights as our general partner with respect to resetting target distributions.

In the event of a reset of the minimum quarterly distribution and the target distribution levels, the holders of the incentive distribution rights will be entitled to receive, in the aggregate, the number of common units equal to that number of common units which would have entitled the holders to an average aggregate quarterly cash distribution in the prior two quarters equal to the average of the distributions on the incentive distribution rights in the prior two quarters. Our general partner will also be issued the number of general partner units necessary to maintain its general partner interest in us that existed immediately prior to the reset election. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not otherwise be sufficiently accretive to cash distributions per common unit. It is possible, however, that our general partner or a transferee could exercise this reset election at a time when it is experiencing, or expects to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued common units rather than retain the right to receive incentive distribution payments based on target distribution levels that are less certain to be achieved in the then-current business environment. This risk could be elevated if our incentive distribution rights have been transferred to a third party. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued common units to our general partner in connection with resetting the target distribution levels.

Our unitholders' liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. The Partnership is organized under Delaware law, and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. Our unitholders could be held liable for any and all of our obligations as if they were general partners if a court or government agency were to determine that:

- we were conducting business in a state but had not complied with that particular state’s partnership statute; or
- our unitholders' right to act with other unitholders to remove or replace our general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute “control” of our business.

Unitholders may have liability to repay distributions that were wrongfully distributed to them.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to our unitholders if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of an impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Transferees of common units are liable both for the obligations of the transferor to make contributions to the Partnership that were known to the transferee at the time of transfer and for those obligations that were unknown if the liabilities could have been determined from the Partnership agreement. Neither liabilities to partners on account of their partnership interest nor liabilities that are non-recourse to the partnership are counted for purposes of determining whether a distribution is permitted.

The NYSE does not require a publicly traded limited partnership like us to comply with certain of its corporate governance requirements.

Our common units are listed on the New York Stock Exchange ("NYSE"). Because we are a publicly traded limited partnership, the NYSE does not require us to have, and we do not intend to have, a majority of independent directors on our general partner’s board of directors or to establish a compensation committee or a nominating and corporate governance committee. Accordingly, unitholders will not have the same protections afforded to certain corporations that are subject to all of the NYSE corporate governance requirements.

Tax Risks to Common Unitholders

Our tax treatment depends on our status as a partnership for federal income tax purposes. If the IRS were to treat us as a corporation for federal income tax purposes, which would subject us to entity-level taxation, then our cash available for distribution to our unitholders would be substantially reduced.

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the Internal Revenue Service, or IRS, on this or any other tax matter affecting us.

Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. A change in our business or a change in current law could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35.0%, and would likely pay state and local income tax at varying rates. Distributions to our unitholders would generally be taxed again as corporate dividends (to the extent of our current and accumulated earnings and profits), and no income, gains, losses, deductions or credits would flow through to such unitholders. Because a tax would be imposed upon us as a corporation, our cash available for distribution would be substantially reduced. Therefore, if we were treated as a corporation for federal income tax purposes there would be material reductions in the anticipated cash flow and after-tax return to our unitholders, likely causing a substantial reduction in the value of our common units.

Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts may be adjusted to reflect the impact of that law on us.

If we were subjected to a material amount of additional entity-level taxation by individual states, it would reduce our cash available for distribution to our unitholders.

Changes in current state law may subject us to additional entity-level taxation by individual states. Because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. Imposition of such additional tax on us by a state will reduce the cash available for distribution to our unitholders. Our partnership agreement provides that, if a law is enacted or an existing law is modified or interpreted in a manner that subjects us to entity-level taxation, the minimum quarterly distribution amount and the target distribution amounts may be adjusted to reflect the impact of that law on us.

The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. From time to time members of the U.S. Congress propose and consider substantive changes to the existing federal income tax laws that affect publicly traded partnerships. For example, one recent legislative proposal would eliminate the qualifying income exception upon which we rely for our treatment as a partnership for U.S. federal income tax purposes. We are unable to predict whether any proposals will ultimately be enacted, but it is possible that a change in law could affect us and may, if enacted, be applied retroactively. Any such changes could negatively impact the value of an investment in our common units.

Our unitholders’ share of our income will be taxable to them for U.S. federal income tax purposes even if they do not receive any cash distributions from us.

Because a unitholder will be treated as a partner to whom we will allocate taxable income which could be different in amount than the cash we distribute, a unitholder’s allocable share of our taxable income will be taxable to it, which may require the payment of federal income taxes and, in some cases, state and local income taxes on such unitholder's share of our taxable income even if it receives no cash distributions from us. Our unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from that income.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted and the cost of any IRS contest would likely reduce our cash available for distribution to unitholders.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed herein or from the positions we take, and the IRS’s positions may ultimately be sustained. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel’s conclusions or the positions we take and such positions may not ultimately be sustained. A court may not agree with some or all of our counsel’s conclusions or the positions we take. Any contest with the IRS, and the outcome of any IRS contest, may have a materially adverse effect on the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS would be borne indirectly by our unitholders and our general partner because the costs would likely reduce our cash available for distribution.

Tax gain or loss on the disposition of our common units could be more or less than expected.

If any of our unitholders sells their common units, such unitholders must recognize a gain or loss for federal income tax purposes equal to the difference between the amount realized and such unitholder's tax basis in those common units. Because distributions in excess of such unitholder's allocable share of our net taxable income decrease such uniholder's tax basis in such unitholder's common units, the amount, if any, of such prior excess distributions with respect to the common units such unitholder sells will, in effect, become taxable income if such unitholder sells such common units at a price greater than its tax basis in those common units, even if the price such unitholder receives is less than its original cost. Furthermore, a substantial portion of the amount realized on any sale or other disposition of such unitholder's common units, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a unitholder’s share of our nonrecourse liabilities, if a unitholder sell their common units, they may incur a tax liability in excess of the amount of cash they receive from the sale.

Tax-exempt entities and non-U.S. persons face unique tax issues from owning our common units that may result in adverse tax consequences to them.

Investment in our common units by tax-exempt entities, such as employee benefit plans and individual retirement accounts (known as IRAs), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file U.S. federal income tax returns and pay tax

on their share of our taxable income. If you are a tax-exempt entity or a non-U.S. person, you should consult a tax advisor before investing in our common units.
We treat each holder of common units as having the same tax benefits without regard to the actual common units held. The IRS may challenge this treatment, which could adversely affect the value of the common units.
Because we cannot match transferors and transferees of common units and because of other reasons, we will adopt depreciation and amortization positions that may not conform to all aspects of existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain from a unitholder's sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to such unitholder's tax returns.
We prorate our items of income, gain, loss and deduction for U.S. federal income tax purposes between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.
We will prorate our items of income, gain, loss and deduction for U.S. federal income tax purposes between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The use of this proration method may not be permitted under existing Treasury Regulations. Recently, however, the U.S. Treasury Department issued proposed Treasury Regulations that provide a safe harbor pursuant to which publicly traded partnerships may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders. Nonetheless, the proposed regulations do not specifically authorize the use of the proration method we have adopted. If the IRS were to challenge this method or new Treasury regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders. Our counsel has not rendered an opinion with respect to whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations.
A unitholder whose common units are loaned to a “short seller” to cover a short sale of common units may be considered as having disposed of those common units. If so, such unitholder would no longer be treated for federal income tax purposes as a partner with respect to those common units during the period of the loan and may recognize gain or loss from the disposition.
Because a unitholder whose common units are loaned to a “short seller” to cover a short sale of common units may be considered as having disposed of the loaned common units, such unitholder may no longer be treated for federal income tax purposes as a partner with respect to those common units during the period of the loan to the short seller and may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those common units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those common units could be fully taxable as ordinary income. Therefore, our unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to consult a tax advisor to discuss whether it is advisable to modify any applicable brokerage account agreements to prohibit their brokers from loaning their common units.
We will adopt certain valuation methodologies and monthly conventions for U.S. federal income tax purposes that may result in a shift of income, gain, loss and deduction between our general partner and our unitholders. The IRS may challenge this treatment, which could adversely affect the value of the common units.
When we issue additional units or engage in certain other transactions, we will determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and our general partner, which may be unfavorable to such unitholders. Moreover, under our valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of taxable income, gain,

loss and deduction between our general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of taxable gain from our unitholders' sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders' tax returns without the benefit of additional deductions.

The sale or exchange of 50% or more of our capital and profits interests during any 12-month period will result in the termination of our Partnership for federal income tax purposes.

We will be considered to have technically terminated our Partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same interest will be counted only once. Our technical termination would, among other things, result in the closing of our taxable year for all unitholders, which would result in us filing two tax returns (and our unitholders could receive two Schedules K-1 if relief was not available, as described below) for one fiscal year and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may also result in more than 12 months of our taxable income or loss being includable in such unitholder's taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead we would be treated as a new partnership for tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred. The IRS has recently announced a publicly traded partnership technical termination relief program whereby, if a publicly traded partnership that technically terminated requests publicly traded partnership technical termination relief and such relief is granted by the IRS, among other things, the Partnership will only have to provide one Schedule K-1 to unitholders for the year notwithstanding two partnership tax years.

As a result of investing in our common units, our unitholders may be subject to state and local taxes and return filing requirements in jurisdictions where we operate or own or acquire properties.

In addition to federal income taxes, our unitholders may be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we conduct business or own property now or in the future, even if they do not live in any of those jurisdictions. Our unitholders may be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, our unitholders may be subject to penalties for failure to comply with those requirements. We currently own property and conduct business in Arkansas, Louisiana, Tennessee and Texas. Arkansas and Louisiana impose a personal income tax on individuals, and each of the four states imposes an income or similar tax on corporations and certain other entities. As we make acquisitions or expand our business, we may own property or conduct business in additional states that impose a personal income tax.

Compliance with and changes in tax laws could adversely affect our performance.

We are subject to extensive tax laws and regulations, including federal, state and foreign income taxes and transactional taxes such as excise, sales/use, payroll, franchise and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted that could result in increased tax expenditures in the future. Many of these tax liabilities are subject to audits by the respective taxing authority. These audits may result in additional taxes as well as interest and penalties.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our Asset Portfolio

Our principal assets are described below under the segment that uses such assets. We believe that our assets are adequate for our operations and adequately maintained.

Pipelines and Transportation Segment

Our pipelines and transportation segment consists of approximately 400 miles of operable crude oil transportation pipelines, 16 miles of refined product pipelines and approximately 600 miles of crude oil gathering and trunk lines. Associated with and currently used in connection with the operation of these lines are crude oil storage tanks with an aggregate of approximately 1.7 million barrels of active shell capacity.

Lion Pipeline System. Our Lion Pipeline System primarily consists of (i) the Magnolia Pipeline, (ii) the Magnolia Station located west of the El Dorado Refinery, (iii) the El Dorado Pipeline, (iv) two refined product pipelines, (v) three small crude oil pipelines used by Delek and an unrelated third party, (vi) multiple short crude oil pipelines that are located on the El Dorado Refinery and the Sandhill Station owned by Delek adjacent to the El Dorado Refinery and transport all crude oil from the incoming pipelines in the Lion Pipeline System and the SALA Gathering System to and from a 150,000 barrel capacity storage tank, known as Tank 192 and (vii) Tank 192.

The Magnolia Pipeline is a 77-mile crude oil pipeline, with a capacity of 68,500 bpd, that runs from a connection with ExxonMobil's North Line pipeline near Shreveport, Louisiana to our Magnolia Station, where the crude oil is then stored and transferred to our El Dorado Pipeline. Since April 2012, the Magnolia Pipeline has been idle because of the temporary suspension of shipments due to a pipeline failure on the North Line. Aron is the shipper on the Magnolia Pipeline. In addition, a new third-party pipeline is expected to link an existing third-party pipeline to the Magnolia Pipeline near Haynesville, Louisiana to allow for the receipt of crude oil transported from Longview, Texas beginning in the first half of 2013. The Magnolia Pipeline is regulated by the FERC.

The Magnolia Station has approximately 135,000 barrels of active shell capacity. We also have 25,000 barrels of shell capacity that is currently not in service and would require additional costs to return to service.

The El Dorado Pipeline is a 28-mile, 12-inch crude oil pipeline, with a capacity of 22,233 bpd, that transports crude oil from our Magnolia Station to the Sandhill Station owned by Delek, which is adjacent to the El Dorado Refinery. The El Dorado Pipeline is regulated by the FERC. Aron is the shipper on this pipeline. Upon reaching the Sandhill Station, the crude oil from the El Dorado Pipeline is transported, via multiple short crude oil pipelines owned by us, to Tank 192. At present, substantially all crude that enters the El Dorado Refinery, including the crude gathered on the SALA Gathering System, is routed through these short pipelines to Tank 192. Tank 192 is located at Delek's Sandhill Station. We own Tank 192 and lease the underlying ground from Lion Oil under a long term ground lease.

We also own two refined product pipelines that transport gasoline and diesel from the El Dorado Refinery to the nearby Enterprise TE Products Pipeline. The diesel line is 12 inches in diameter while the gasoline line is 10 inches in diameter. These two lines commence at the El Dorado Refinery. We own the portion of these lines that commence at the Sandhill Station at the location of the pump for each line and runs approximately eight miles to the Enterprise TE Products Pipeline.

We also own three other short crude oil pipelines. One of these lines is a common carrier pipeline and is regulated by the FERC. At present it only transports a small volume of crude oil for a third-party specialty products refiner in the area. The other two pipelines transport crude oil for Delek, which is delivered to the El Dorado Refinery via railcars.

Magnolia Pipeline System

El Dorado Pipeline System

SALA Gathering System. The SALA Gathering System includes approximately 600 miles of two- to eight-inch crude oil gathering and transportation lines in southern Arkansas and northern Louisiana located primarily within a 60-mile radius of the El Dorado Refinery. The SALA Gathering System primarily gathers crude oil production from multiple fields in southern Arkansas and northern Louisiana for delivery to the El Dorado Refinery both directly and through the El Dorado Pipeline System.

SALA Gathering System

The SALA Gathering System includes 54 crude oil storage tanks and breakout tanks with a total combined active shell capacity of approximately 0.8 million barrels (including Tank 192 and the 122,000 barrels of capacity discussed below), 14 truck receipt locations, approximately 500 pipeline gathering and receiving stations and 17 relay stations to deliver crude oil to the El Dorado Pipeline System or directly to the El Dorado Refinery. We also have 0.5 million barrels of combined shell capacity that is currently not in service. In addition, we own 122,000 barrels of shell capacity that we allow a third party to utilize pursuant to a 10-year agreement.
Paline Pipeline System. The Paline Pipeline System is primarily a 185-mile, 10-inch crude oil pipeline running from Longview, Texas to the Chevron-operated Beaumont terminal in Nederland, Texas. It also includes an approximately seven-mile idle pipeline from Port Neches to Port Arthur, Texas and a three-mile section of pipeline that runs north from Kilgore, Texas. The three-mile section of pipeline is a common carrier pipeline and is regulated by the FERC. At present it only transports a small volume of crude oil for an unrelated third-party.

Paline Pipeline System

East Texas Crude Logistics System. Our East Texas Crude Logistics System includes two owned and operated crude oil pipeline systems serving the Tyler Refinery: (i) the Nettleton pipeline, a 36-mile pipeline that transports crude oil from Nettleton Station to the Tyler Refinery and (ii) the McMurrey Pipeline System, a 65-mile pipeline system that transports crude oil from inputs between our La Gloria Station and the Tyler Refinery.

East Texas Crude Logistics System and Big Sandy Terminal

Our East Texas Crude Logistics System also includes the following owned or leased crude oil storage terminals at which we store crude oil owned by Delek for the Tyler Refinery.

Terminal	Number of Tanks	Active Aggregate Shell Storage Capacity (bbls)
La Gloria Station	2	450,000
Nettleton Station (1)	5	165,000
Bradford Station (1)	2	55,000
Arp Station	2	110,000
Total	11	780,000 (2)

(1) Located on property that we lease from a third party as described in more detail below under "—Facilities."
(2) In addition, we have 120,000 barrels of shell capacity that is currently not in service and would require additional costs to return to service.

Wholesale Marketing and Terminalling Segment

Wholesale Marketing

We own approximately 104 miles of product pipelines in west Texas that connect our San Angelo and Abilene, Texas terminals to the Magellan Orion Pipeline. These pipelines include the following:

- a 13.2-mile, eight-inch pipeline from a Magellan Pipeline custody transfer point at Magellan's Tye Station to the Abilene terminal;
- a 13.5-mile, four-inch pipeline from the Abilene terminal to the Delek Pipeline tie-in;
- a 76.5-mile, six-inch pipeline system from Delek's Tye Station to the San Angelo terminal; and
- a 1.0-mile, 20-inch pipeline from Magellan's Tye Station to Delek's Tye Station.

Each of these pipelines is owned by us and leased to Noble Petro as discussed below.

Abilene Terminal. We own a terminal in Abilene, Texas that is leased to Noble Petro, Inc. ("Noble Petro") pursuant to a terminal and pipeline lease and operating agreement for nominal consideration. This terminal has nine operating tanks with an active aggregate shell capacity of approximately 368,000 barrels. Refined products for the Abilene terminal are supplied under our agreement with Noble Petro and are loaded on two loading lanes, each having three loading arms.

San Angelo Terminal. We also own a terminal in San Angelo, Texas that is leased to Noble Petro under the same agreement as our Abilene terminal. This terminal has five tanks with an active aggregate shell capacity of approximately 93,000 barrels. Refined products for the San Angelo terminal are supplied under our agreement with Noble Petro and are loaded on two loading lanes, each having three loading arms.

The following table provides the location of the Abilene and San Angelo terminals associated with our marketing activities and their storage capacities, supply source, number of truck loading lanes, average truck loading volume and maximum daily available truck loading capacity for the years ended 2012 and 2011.

Terminal Location	Number of Tanks	Active Aggregate Shell Capacity (bbls)	Supply Source	Number of Truck Loading Lanes	Maximum Daily Available Truck Loading Capacity (bpd)	Average Daily Truck Loading Volume for 2012 (bpd)	Average Daily Truck Loading Volume for 2011 (bpd)
Abilene, TX (1)	9	368,307	Noble Petro	2	17,700	6,141	5,433
San Angelo, TX	5	92,641	Noble Petro	2	8,400	3,919	4,815
Total	14	460,948		4	26,100	10,060	10,248

(1) Excludes 86,000 barrels of shell capacity that is out of service, 379,600 barrels of out of service shell capacity requiring extensive repair and off-site storage capacity of 79,900 barrels of shell capacity related to the JP-8 delivery system.

Abilene Area Terminals and Product Pipelines

Terminalling

We provide terminalling services for products to independent third parties and Delek’s retail segment through a light products terminal we own in Nashville, Tennessee and to J. Aron for products through a light products terminal in Memphis, Tennessee. See "El Dorado Refinery Crude Oil and Refined Products Supply and Offtake Arrangement" for a description of our agreement with J. Aron. We also own a light products terminal in Big Sandy, Texas, which is capable of providing terminalling and storage services to Delek's Tyler Refinery but is currently idle.

Memphis Terminal. Our Memphis terminal has 12 tanks (eight for gasoline and diesel and four for additives, ethanol, transmix and water) with an active aggregate shell capacity of approximately 114,000 barrels. We have an agreement with Delek, whereby Delek is able to directly supply our Memphis terminal with refined product from its El Dorado Refinery. Refined products are loaded on three fully-automated loading lanes.

Nashville Terminal. Our Nashville terminal has 10 tanks (seven for gasoline and diesel and three for additives, ethanol and water) with an active aggregate shell capacity of approximately 132,000 barrels. Although this terminal primarily provides terminalling and storage services for third parties, Delek has the ability to indirectly supply this terminal through product exchange agreements. Refined products are loaded on two loading lanes at this terminal.

Big Sandy Terminal. Our Big Sandy terminal is capable of loading refined products on three loading lanes, with a total of thirteen bottom-loading arms. The Big Sandy terminal also has 13 storage tanks (four for gasoline and diesel and nine for additives and ethanol) with an active aggregate shell capacity of approximately 166,000 barrels. The Big Sandy terminal includes an eight-inch diameter pipeline which runs between Big Sandy and Hopewell Junction in Texas. From Hopewell Junction, a third party owns a pipeline running to Delek's Tyler Refinery. This pipeline is currently not operational and therefore neither is our Big Sandy terminal. The terminal is currently not operational because a pipeline owned by a third party, necessary for the use of the terminal is out of service. Currently, we are in discussions with the third party owner to have the pipeline returned to service. Although we do not know when the pipeline will be returned to service and we do not control the pipeline and cannot assure what will be done, we currently expect the pipeline to be operational in 2013. Although the terminal is not operational, Delek pays us to terminal at the Big Sandy terminal a minimum of 5,000 bpd of refined products from the Tyler Refinery and a storage fee of $50,000 per month, the minimum payment due under our agreement with Delek.

The following table provides the location of our refined product terminals associated with our terminalling activities and their storage capacities, supply source, number of truck loading lanes, average truck loading volume and maximum daily available truck loading capacity for the years ended December 31, 2012 and 2011.

Terminal Location	Number of Tanks	Active Aggregate Shell Capacity (bbls)	Supply Source	Number of Truck Loading Lanes	Maximum Daily Available Truck Loading Capacity (bpd)	Average Daily Truck Loading Volume for 2012 (bpd)	Average Daily Truck Loading Volume for 2011 (bpd)
Big Sandy, TX	13	165,816	Tyler Refinery	3	9,100	N/A (1)	N/A (1)
Memphis, TN (3)	12	114,492	Enterprise System	3	13,371	10,334	11,558
Nashville, TN	10	132,423	Pilot/MAPCO/Valero	2	8,914	5,086	5,248
Total	35	412,731 (2)		8	31,385	15,420	16,806

(1) The Big Sandy terminal was acquired by Delek on February 7, 2012 and has been idle during this period.
(2) In addition, we have 107,600 barrels of shell capacity that is currently not in service and would require additional costs to return to service.
(3) The Memphis Terminal supports the El Dorado Refinery

Title to Properties and Permits

While we own the physical improvements consisting of our pipelines, substantially all of these pipelines are constructed on rights-of-way granted by the apparent record owners of the property and in some instances these rights-of-way are revocable at the election of the grantor. In many instances, lands over which rights-of-way have been obtained are subject to prior liens that have not been subordinated to the right-of-way grants. We have obtained permits from public authorities to cross over or under, or to lay facilities in or along, watercourses, county roads, municipal streets, and state highways and, in some instances, these permits are revocable at the election of the grantor. We have also obtained permits from railroad companies to cross over or under lands or rights-of-way, many of which are also revocable at the grantor's election. In some states and under some circumstances, we have the right of eminent domain to acquire rights-of-way and lands necessary for our common carrier pipelines.

We believe that we are the owner of valid easement rights and rights-of-way or fee ownership or leasehold interests to the lands on which the above assets are located. Under the omnibus agreement we have entered into with Delek, Delek has agreed to indemnify us for certain title defects and for failures to obtain certain consents and permits necessary to conduct our business, in each case, that are identified prior to November 7, 2017, subject to a $250,000 aggregate annual deductible. Although title to these properties is subject to encumbrances in some cases, such as customary interests generally retained in connection with acquisition of real property, liens that can be imposed in some jurisdictions for government-initiated action to clean up environmental contamination, liens for current taxes and other burdens, and easements, restrictions, and other encumbrances to which the underlying properties were subject at the time of acquisition by our predecessor or us, we believe that none of these burdens should materially detract from the value of these properties or from our interest in these properties or should materially interfere with their use in the operation of our business.

Facilities

Our Nettleton Station is located on property that we lease from Chevron. The lease is renewable, at our option, for successive one-year terms on 30 days' notice prior to the end of the then-current term and payment in advance of a nominal amount, and we have exercised our renewal option through May 2013.

Our Bradford Station is located on property that we lease from a local family. The lease is renewable, at our option, for successive one-year terms upon payment in advance of a nominal amount, and we have exercised our renewal option through March 2013.

Liens and Encumbrances

The majority of the assets described above are pledged under and encumbered by our credit agreement. See Note 9 of the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, of this Annual

Report on Form 10-K for further information.

Corporate Headquarters

Delek leases its corporate headquarters at 7102 Commerce Way, Brentwood, Tennessee. The lease is for 54,000 square feet and expires in April 2022. We pay Delek a proportionate share of the costs to operate the building pursuant to the omnibus agreement. Please read "Business—Commercial Agreements—Other Agreements with Delek—Omnibus Agreement."

ITEM 3. LEGAL PROCEEDINGS

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we do not believe that we are a party to any litigation that will have a material adverse impact on our financial condition, results of operations or cash flows. We are not aware of any significant legal or governmental proceedings against us, or contemplated to be brought against us.

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

Unit Price and Cash Distributions

Our common units represent limited partner interests in us that entitle the holders to the rights and privileges specified in our partnership agreement. Our common units began trading on the NYSE under the symbol "DKL" on November 2, 2012. Prior to that time, there was no public market for our common units. There were three holders of record of our common units as of February 7, 2013, which includes common units held in street name. In addition, as of March 1, 2013, Delek and its subsidiaries owned 2,799,258 of our common units, 11,999,258 of our subordinated units and 489,766 of our general partner units (the 2% general partner interest), which together constitute a 62.4% ownership interest in us.

The following table sets forth the range of the daily high and low sales prices per common unit and cash distributions to common unitholders for the period from November 1, 2012, the date our shares began trading. A cash distribution of $0.224 per common unit, which reflects the pro rata portion of the minimum quarterly distribution rate of $0.375 for the period beginning November 7, 2012, the closing date of our initial public offering, was declared on January 24, 2013 and paid on February 14, 2013 to holders of record as of February 6, 2013.

Period	High Sales Price	Low Sales Price	Quarterly Cash Distribution per Unit	Distribution Date	Record Date
2012					
Fourth Quarter (from November 2, 2012)	$23.74	$20.52	N/A	N/A	N/A

Distributions of Available Cash

Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash to unitholders of record on the applicable record date.

Definition of Available Cash

Available cash generally means, for any quarter, all cash and cash equivalents on hand at the end of that quarter:

- less the amount of cash reserves established by our general partner to:

provide for the proper conduct of our business (including cash reserves for our future capital expenditures and anticipated future debt service requirements and refunds of collected rates reasonably likely to be refunded as a result of a settlement or hearing related to FERC rate proceedings or rate proceedings under applicable law subsequent to that quarter);

- comply with applicable law, 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 (provided that our general partner may not establish cash reserves for distributions if the effect of the establishment of such reserves will prevent us from distributing the minimum quarterly distribution on all common units and any cumulative arrearages on such common units for the current quarter);
- plus, if our general partner so determines, all or any portion of the cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made subsequent to the end of such quarter. Under our partnership agreement, working capital borrowings are generally borrowings that are made under a credit facility, commercial paper facility or similar financing arrangement, and in all cases are used solely for working capital purposes or to pay distributions to partners, and with the intent of the borrower to repay such borrowings within 12 months with funds other than from additional working capital borrowings.

Intent to Distribute the Minimum Quarterly Distribution

We intend to make a minimum quarterly distribution to the holders of our common units and subordinated units of $0.375 per unit, or $1.50 per unit on an annualized basis, to the extent we have sufficient cash from our operations after the establishment of cash reserves and the payment of costs and expenses, including reimbursements of expenses to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution on our units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement.

General Partner Interest and Incentive Distribution Rights

Our general partner is currently entitled to 2.0% of all quarterly distributions that we make prior to our liquidation. This general partner interest is represented by 489,766 general partner units. Our general partner has the right, but not the obligation, to contribute up to a proportionate amount of capital to us to maintain its current general partner interest. The general partner’s 2.0% interest in these distributions may be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2.0% general partner interest.

Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 48.0%, of the cash we distribute from operating surplus (as defined in our partnership agreement) in excess of $0.43125 per unit per quarter. The maximum distribution of 48.0% does not include any distributions that our general partner or its affiliates may receive on common, subordinated or general partner units that it owns.

Percentage Allocations of Available Cash

The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under “Marginal Percentage Interest in Distributions” are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column “Total Quarterly Distribution per Unit Target Amount.” The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 2.0% general partner interest and assume that our general partner has contributed any additional capital necessary to maintain its 2.0% general partner interest, our general partner has not transferred its incentive distribution rights and that there are no arrearages on common units.

	Total Quarterly Distribution per Unit Target Amount	Marginal Percentage Interest in Distributions Unitholders		General Partner	
Minimum Quarterly Distribution	$0.37500	98.0	%	2.0	%
First Target Distribution	above $0.37500 up to $0.43125	98.0	%	2.0	%
Second Target Distribution	above $0.43125 up to $0.46875	85.0	%	15.0	%
Third Target Distribution	above $0.46875	75.0	%		