Delek Logistics Partners, LP
Form 10-Q
November 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2013

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)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

At November 1, 2013, there were 12,036,821 common units, 11,999,258 subordinated units, and 490,532 general partner units outstanding.

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Part I.
FINANCIAL INFORMATION

Item 1. Financial Statements
Delek Logistics Partners, LP
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2013	December 31, 2012 [1]
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$6,712	$23,452
Accounts receivable	34,611	27,725
Inventory	21,239	14,351
Deferred tax assets	14	14
Other current assets	592	169
Total current assets	63,168	65,711
Property, plant and equipment:		
Property, plant and equipment	229,753	216,048
Less: accumulated depreciation	(33,264)	(24,991)
Property, plant and equipment, net	196,489	191,057
Goodwill	10,454	10,454
Intangible assets, net	11,647	12,430
Other non-current assets	5,620	3,664
Total assets	$287,378	$283,316
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$26,995	$21,849
Accounts payable to related parties	14,908	10,148
Fuel and other taxes payable	6,683	4,650
Accrued expenses and other current liabilities	6,348	3,650
Total current liabilities	54,934	40,297
Non-current liabilities:		
Revolving credit facility	161,000	90,000
Asset retirement obligations	3,340	3,177
Deferred tax liability	59	17
Other non-current liabilities	7,965	9,810
Total non-current liabilities	172,364	103,004
Equity:		
Predecessors division equity	—	35,590
Common unitholders - public; 9,237,563 units issued and outstanding at September 30, 2013 (9,200,000 at December 31, 2012)	184,656	178,728
Common unitholders - Delek; 2,799,258 units issued and outstanding at September 30, 2013 (2,799,258 at December 31, 2012)	(181,071)	(127,129)
Subordinated unitholder - Delek; 11,999,258 units issued and outstanding at September 30, 2013 (11,999,258 at December 31, 2012)	58,697	52,875
General Partner unitholder - Delek; 490,532 units issued and outstanding at September 30, 2013 (489,766 at December 31, 2012)	(2,202)	(49)

Total equity	60,080	140,015
Total liabilities and equity	$287,378	$283,316

(1) Includes the historical balances of the Tyler Terminal and Tank Assets. See Notes 1 and 2 for further discussion.

See accompanying notes to condensed consolidated financial statements

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Delek Logistics Partners, LP
Condensed Consolidated Statements of Income and Comprehensive Income [1]
(Unaudited)

	Three Months Ended September 30, 2013	2012 Predecessors	Nine Months Ended September 30, 2013	2012 Predecessors
	(In thousands)			
Net sales	$243,295	$271,806	$684,331	$773,369
Operating costs and expenses:				
Cost of goods sold	218,222	255,281	614,048	729,750
Operating expenses	7,474	9,540	23,075	20,637
General and administrative expenses	1,868	1,804	5,172	6,937
Depreciation and amortization	2,844	2,616	9,074	7,720
Loss on sale of assets	—	5	—	5
Total operating costs and expenses	230,408	269,246	651,369	765,049
Operating income	12,887	2,560	32,962	8,320
Interest expense, net	1,194	667	2,763	1,777
Income before income tax expense	11,693	1,893	30,199	6,543
Income tax expense	307	2,437	547	5,183
Net income (loss)	11,386	(544)	29,652	1,360
Less: (loss) income attributable to Predecessors	(1,159)	(544)	(6,853)	1,360
Net income attributable to partners	$12,545	$—	$36,505	$—
Comprehensive income attributable to partners	$12,545	$—	$36,505	$—
Less: General partner's interest in net income (2%)	250		$729	
Limited partners' interest in net income	$12,295		$35,776	
Net income per limited partner unit:				
Common units - (basic)	$0.51		$1.49	
Common units - (diluted)	$0.51		$1.48	
Subordinated units - Delek (basic and diluted)	$0.51		$1.49	
Weighted average limited partner units outstanding:				
Common units - (basic)	12,036,821		12,014,445	
Common units - (diluted)	12,188,342		12,152,657	
Subordinated units - Delek (basic and diluted)	11,999,258		11,999,258	
Cash distribution per unit	$0.405		$1.185	

[1] Adjusted to include the historical results of the Tyler Terminal and Tank Assets. See Notes 1 and 2 for further discussion.

See accompanying notes to condensed consolidated financial statements

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Delek Logistics Partners, LP
Condensed Consolidated Statements of Cash Flows (Unaudited) [1]

	Nine Months Ended September 30,	
	2013	2012 Predecessors
	(In thousands)	
Cash flows from operating activities:		
Net income	$29,652	$1,360
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,074	7,720
Amortization of unfavorable contract liability to revenue	(1,956)	—
Amortization of debt issuance costs	560	146
Accretion of asset retirement obligations	163	79
Deferred income taxes	42	(135)
Loss on sale of assets	—	5
Unit-based compensation expense	179	92
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(6,886)	(14,605)
Inventories and other current assets	(7,311)	(13,742)
Accounts payable and other current liabilities	9,907	16,134
Accounts payable from related parties	4,760	(369)
Non-current assets and liabilities, net	(2,700)	(1,217)
Net cash provided by (used in) operating activities	35,484	(4,532)
Cash flows from investing activities:		
Business combinations	(5,722)	(23,272)
Purchases of property, plant and equipment	(7,881)	(16,700)
Proceeds from sale of property, plant and equipment	—	2
Net cash used in investing activities	(13,603)	(39,970)
Cash flows from financing activities:		
Distributions to general partner	(492)	—
Distributions to common unitholders - Public	(9,252)	—
Distributions to common unitholders - Delek	(2,810)	—
Distributions to subordinated unitholders - Delek	(12,047)	—
Distributions to Delek for contribution of Tyler Terminal and Tank Assets	(94,800)	—
Proceeds from revolving credit facility	138,000	226,200
Payments of revolving credit facility	(67,000)	(203,300)
Tax benefit from exercise of stock-based compensation	—	25
Deferred financing costs paid	—	(97)
Capital contributions by Predecessors	9,317	21,852
Reimbursement of capital expenditures by sponsor	463	—
Net cash (used in) provided by financing activities	(38,621)	44,680
Net (decrease) increase in cash and cash equivalents	(16,740)	178
Cash and cash equivalents at the beginning of the period	23,452	35
Cash and cash equivalents at the end of the period	$6,712	$213
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$1,906	$1,633
Income taxes	$30	$1,316

Non-cash financing activities:		
Working capital retained by Sponsor	213	—
Sponsor contribution of fixed assets	105	—

(1) Adjusted to include the historical cash flows of the Tyler Terminal and Tank Assets. See Notes 1 and 2 for further discussion.

See accompanying notes to condensed consolidated financial statements

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Delek Logistics Partners, LP
Notes to Condensed Consolidated Financial Statements (Unaudited)
1. Organization and Basis of Presentation
As used in this report, the terms "Delek Logistics Partners, LP," the "Partnership," "we," "us," or "our" may refer to Delek Logistics Partners, LP, one or more of its consolidated subsidiaries or all of them taken as a whole. References in this report to "Delek" refer collectively to Delek US Holdings, Inc. and any of its subsidiaries, other than Delek Logistics Partners, LP, its subsidiaries and its general partner.
The Partnership is a Delaware limited partnership formed in April 2012 by Delek Logistics GP, LLC, a subsidiary of Delek and our general partner. On November 7, 2012, we completed our initial public offering (the "Offering") of 9,200,000 common units representing limited partner interests.
The information presented in this Quarterly Report on Form 10-Q contains the unaudited condensed combined financial results of Delek Logistics Partners, LP Predecessor ("the DKL Predecessor"), our predecessor for accounting purposes, for the three and nine months ended September 30, 2012. The DKL Predecessor includes the financial results of the initial assets acquired from Delek during the Offering. The unaudited condensed consolidated financial results for the three and nine months ended September 30, 2013 include the results of operations for the Partnership. The balance sheet as of September 30, 2013 presents solely the condensed consolidated financial position of the Partnership.
Upon completion of the Offering, the Partnership consisted of the assets, liabilities and results of operations of certain crude oil and refined product pipelines and transportation, wholesale marketing and terminalling assets previously operated or held by Delek and certain of its subsidiaries including Delek Marketing & Supply, LLC ("Delek Marketing"), Paline Pipeline Company, LLC ("Paline") and Lion Oil Company ("Lion Oil"). Prior to the completion of the Offering, the assets, liabilities, and results of operations of the aforementioned assets related to the DKL Predecessor.
Transfers between entities under common control are accounted for as if the transfer occurred at the beginning of the period, and prior years are retrospectively adjusted to furnish comparative information. As an entity under common control with Delek, we record the assets that Delek has contributed to us on our balance sheet at Delek's historical basis instead of fair value.
On July 26, 2013, we acquired from Delek (i) the refined products terminal (the “Tyler Terminal”) located at Delek's Tyler, Texas Refinery (the "Tyler Refinery") and (ii) ninety-six storage tanks and certain ancillary assets (the "Tyler Tank Assets" and together, with the Tyler Terminal, the “Tyler Terminal and Tank Assets”) adjacent to the Tyler Refinery (such transaction, the “Tyler Acquisition”). The Tyler Acquisition was a transfer between entities under common control. Accordingly, the accompanying financial statements and related notes of the DKL Predecessor and the Partnership have been retrospectively adjusted to include the historical results of the Tyler Terminal and Tank Assets for all periods presented through July 26, 2013 (the "Tyler Predecessor"). We refer to the historical results of the DKL Predecessor and the Tyler Predecessor collectively as our "Predecessors." See Note 2 for information regarding the Tyler Acquisition.
The accompanying unaudited condensed combined financial statements and related notes for the three and nine months ended September 30, 2012 present the consolidated financial position, results of operations, cash flows and division equity of our Predecessors. The financial statements of our Predecessors have been prepared from the separate records maintained by Delek and may not necessarily be indicative of the conditions that would have existed or the results of operations if our Predecessors had been operated as an unaffiliated entity. Our Predecessors did not record all revenues for intercompany gathering, pipeline transportation, terminalling and storage services.
Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted, although management believes that the disclosures herein are adequate to make the financial information presented not misleading. Our unaudited condensed consolidated financial statements have been prepared in conformity with U.S. GAAP applied on a consistent basis with those of the annual audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012 (our "Annual Report on Form 10-K"). These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial

statements and notes thereto for the year ended December 31, 2012 included in our Annual Report on Form 10-K.
In the opinion of management, all adjustments necessary for a fair presentation of the financial position and the results of operations for the interim periods presented have been included. All significant intercompany transactions and account balances have been eliminated in the consolidation. Such intercompany transactions do not include those with Delek or our general partner. All adjustments are of a normal, recurring nature. Operating results for the interim period should not be viewed as representative of results that may be expected for any future interim period or for the full year.

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The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance requiring companies to report, in one place, either on the face of the financial statements or in the notes, information about reclassifications out of accumulated other comprehensive income ("AOCI"). The guidance also requires companies to present current-period reclassifications out of AOCI and other amounts of current-period other comprehensive income ("OCI") separately for each component of OCI on the face of the financial statements or in the notes, whereas companies were previously required to present total changes in AOCI by component on the face of the financial statements or in the notes. For each significant reclassification to net income in its entirety during their reporting period, companies must identify the line item(s) affected in the statement where net income is presented. For any significant reclassifications that are not reclassified directly to net income in their entirety during the reporting period, cross-references to the note where additional details about the effects of the reclassification are disclosed are required. Companies can choose to present this information before tax or after tax, provided that they comply with the existing tax disclosure requirements in Statement of Accounting Standards Codification ("ASC") 220, Comprehensive Income. The guidance is effective for interim and annual reporting periods beginning after December 15, 2012, or the first quarter of 2013 for calendar-year companies and should be applied prospectively. The adoption of this guidance did not affect our business, financial position or results of operations, but may result in additional disclosures. We did not reclassify amounts out of AOCI during the three and nine months ended September 30, 2013.

In July 2012, the FASB issued guidance regarding testing indefinite-lived intangible assets for impairment that gives companies the option to perform a qualitative assessment before calculating the fair value of the indefinite-lived intangible asset. Under the guidance, if this option is selected, a company is not required to calculate the fair value of the indefinite-lived intangible unless the entity determines it is more likely than not that its fair value is less than its carrying amount. In October 2012, the FASB issued guidance regarding the application of the qualitative assessment permitted under the Accounting Standards Update 2012-02, issued in July. The guidance requires companies to focus on the significant inputs used to determine the fair value of indefinite-lived intangible assets when companies opt to perform the qualitative assessment. Companies must then evaluate the impact of certain events and circumstances that could have affected those inputs and weigh the identified factors prior to concluding whether the asset is impaired. As significant judgment is applied to conclude that an indefinite-lived intangible asset is not impaired based on a qualitative assessment, the analyses performed by the Company should be supported by clear documentation of the factors considered, including any necessary quantitative calculations. The guidance is effective for interim and annual reporting periods beginning January 1, 2013. The adoption of this guidance did not affect our business, financial position or results of operations.

In December 2011, the FASB issued guidance requiring the disclosure of information about offsetting and related arrangements to enable users of financial statements to understand the effect of these arrangements on financial position. The guidance requires the disclosure of both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB issued an update limiting the scope of the offsetting disclosure requirements established by the original guidance, to certain derivatives (including bifurcated embedded derivatives), repurchase agreements and reverse repurchase agreements, and securities lending and securities borrowing transactions that are eligible for offset on the balance sheet or are subject to an agreement similar to a master netting arrangement, irrespective of whether they are offset on the balance sheet. This update amends the guidance that required companies to apply the requirements to all recognized financial instruments. The original and updated guidance is effective for interim and annual reporting periods beginning January 1, 2013 and retrospectively for all periods presented on the balance sheet. The adoption of this guidance did not affect our business, financial position or results of operations, but may result in additional disclosures (see Note 11).

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2. Acquisitions

Nettleton Acquisition

On January 31, 2012, Delek completed the acquisition of an approximately 35-mile long, eight and ten-inch pipeline system (the "Nettleton Pipeline") from Plains Marketing, L.P. (“Plains”), which was subsequently contributed to the Partnership in connection with the Offering. The Nettleton Pipeline is used to transport crude oil from our tank farms in and around Nettleton, Texas to the Bullard Junction at the Tyler Refinery. Prior to the acquisition of the Nettleton Pipeline, Delek leased the Nettleton Pipeline from Plains under the terms of the Pipeline Capacity Lease Agreement dated April 12, 1999, as amended, which was terminated in connection with the acquisition of the Nettleton Pipeline.

The aggregate purchase price of the Nettleton Pipeline was approximately $12.3 million. The allocation of the purchase price was based primarily upon a preliminary valuation. During 2012, we adjusted certain of the acquisition-date fair values previously disclosed, based primarily on the finalization of goodwill and intangible amounts, which were obtained subsequent to the acquisition.

The allocation of the aggregate purchase price of the Nettleton Pipeline as of December 31, 2012 is summarized as follows (in thousands):

Property, plant and equipment	$8,590
Intangible assets	2,240
Goodwill (all expected to be deductible for tax purposes)	1,415
Total	$12,245

Big Sandy Acquisition

On February 7, 2012, Delek purchased (i) a light petroleum products terminal located in Big Sandy, Texas, the underlying real property, and other related assets from Sunoco Partners Marketing & Terminals L.P. (the "Big Sandy Terminal") and (ii) the 19-mile, eight-inch diameter Hopewell - Big Sandy Pipeline originating at the Hopewell Station in Smith County, Texas and terminating at the Big Sandy Station in Big Sandy, Texas from Sunoco Pipeline L.P (the "Big Sandy Pipeline"). The Big Sandy Terminal and Big Sandy Pipeline were subsequently contributed to the Partnership in connection with the Offering. The Big Sandy Terminal was supplied by the Tyler Refinery but has been idle since November 2008.

The aggregate purchase price of the Big Sandy Terminal and Big Sandy Pipeline was approximately $11.0 million. The allocation of the purchase price was based primarily upon a preliminary valuation. During 2012, we adjusted certain of the acquisition-date fair values previously disclosed, based primarily on the finalization of goodwill and intangible amounts.

The allocation of the aggregate purchase price of the Big Sandy Terminal and Big Sandy Pipeline as of December 31, 2012 is summarized as follows (in thousands):

Property, plant and equipment	$8,258
Intangible assets	1,229
Goodwill (all expected to be deductible for tax purposes)	1,540
Total	$11,027

Pro Forma Financial Information - Nettleton and the Big Sandy Terminal

We began consolidating the results of operations of the Nettleton Pipeline and the Big Sandy Terminal on January 31, 2012 and February 7, 2012, respectively. The Nettleton Pipeline contributed $1.2 million and $4.4 million to net sales for the three and nine months ended September 30, 2013, respectively, and $0.8 million and $3.0 million to net income for the three and nine months ended September 30, 2013, respectively. The Big Sandy Terminal contributed $0.4 million and $1.1 million to net sales for the three and nine months ended September 30, 2013, respectively, and $0.3 million and $0.9 million to net income for the three and nine months ended September 30, 2013, respectively.

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Below are the unaudited pro forma consolidated results of operations for the three and nine months ended September 30, 2012, as if these acquisitions had occurred on January 1, 2011 (amounts in thousands):

	Three Months Ended September 30, 2012 Predecessors	Nine Months Ended September 30, 2012 Predecessors
Net sales	$271,935	$773,498
Net (loss) income	$(421)	$1,420

Hopewell Acquisition

On July 19, 2013, the Partnership purchased from Enterprise TE Products Pipeline Company LLC a 13.5 mile pipeline (the "Hopewell Pipeline") that originates at the Tyler Refinery and terminates at the Hopewell Station, where it effectively connects to the Big Sandy Pipeline. The Hopewell Pipeline and the Big Sandy Pipeline form essentially one pipeline link between the Tyler Refinery and the Big Sandy Terminal (the "Tyler-Big Sandy Pipeline"). The aggregate purchase price was approximately $5.7 million in cash, which has been preliminarily allocated to property, plant and equipment. The property, plant and equipment valuation is subject to change during the purchase price allocation period.

Amended and Restated Services Agreement (Big Sandy Terminal and Pipeline). In connection with the acquisition of the Hopewell Pipeline, on July 25, 2013, the Partnership and Delek entered into the Amended and Restated Services Agreement (Big Sandy Terminal and Pipeline), which amended and restated the Terminalling Services Agreement dated November 7, 2012 for the Big Sandy Terminal to include, among other things, a minimum throughput commitment and a per barrel throughput fee that Delek will pay us for throughput along the Tyler-Big Sandy Pipeline. See Note 13 for additional information on this agreement.

Pro Forma Financial Information - Hopewell Acquisition

We began consolidating the results of operations of the Hopewell Pipeline on July 19, 2013. Although the Hopewell Pipeline has not been operational, Delek paid to us pipeline fees for the Hopewell Pipeline in the third quarter 2013. The Hopewell Pipeline contributed $0.2 million to net sales for both the three and nine months ended September 30, 2013 and a nominal amount to net income for the three and nine months ended September 30, 2013. As the Hopewell Pipeline has not been operational since prior to January 1, 2012, there are no proforma revenue adjustments for the three and nine months ended September 30, 2013 or September 30, 2012.

Tyler Acquisition

On July 26, 2013, the Partnership completed the Tyler Acquisition and acquired the Tyler Terminal and Tank Assets. The purchase price paid for the assets acquired was $94.8 million in cash. The assets acquired consisted of the following:

- The Tyler Terminal. The refined products terminal located at the Tyler Refinery, which consists of a truck loading rack with nine loading bays supplied by pipelines from storage tanks, also owned by the Partnership, located adjacent to the Tyler Refinery, along with certain ancillary assets. Total throughput capacity for the Tyler Terminal is approximately 72,000 barrels per day ("bpd").
- The Tyler Tank Assets. Ninety-six storage tanks and certain ancillary assets (such as tank pumps and piping) located adjacent to the Tyler Refinery with an aggregate shell capacity of approximately 2.0 million barrels (the "Tyler Storage Tanks").

Delek retained any current assets, current liabilities and environmental liabilities related to the Tyler Terminal and Tank Assets as of the date of the Tyler Acquisition. The only historical balance sheet items that transferred to the Partnership in the Acquisition were property, plant and equipment assets and asset retirement obligations which were recorded by us at historical cost.

In connection with the Tyler Acquisition, the Partnership and Delek (i) entered into an asset purchase agreement, (ii) amended and restated the omnibus agreement (iii) entered into a throughput and tankage agreement with respect to the Tyler Terminal and Tank Assets, (iv) entered into a lease and access agreement and (v) entered into a site services agreement. See Note 13 for additional information regarding these agreements.

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Tyler Terminal and Tank Assets Financial Results

The acquisition of the Tyler Terminal and Tank Assets was considered a transfer of a business between entities under common control. Accordingly, the Tyler Acquisition was recorded at amounts based on the historical carrying value of the Tyler Terminal and Tank Assets as of July 26, 2013, which was $38.3 million. Our historical financial statements have been retrospectively adjusted to reflect the results of operations, financial position, cash flows and equity attributable to the Tyler Terminal and Tank Assets as if we owned the assets for all periods presented. The results of the Tyler Terminal and the Tyler Tank Assets are included in the wholesale marketing and terminalling segment and the pipelines and transportation segment, respectively.

The results of the Tyler Terminal and Tank Assets operations prior to the completion of the Tyler Acquisition on July 26, 2013 have been included in the Tyler Predecessor results in the tables below. The results of the Tyler Terminal and Tank Assets subsequent to July 26, 2013 have been included in the Partnership's results. Accordingly, for the three and nine months ended September 30, 2013, total operating revenues of $3.3 million and net income attributable to the Partnership of $2.1 million associated with the Tyler Terminal and Tank Assets are included in the condensed combined consolidated statements of operations of the Partnership. Nominal costs associated with the Tyler Acquisition are included in general and administrative expenses for the three and nine months ended September 30, 2013, respectively.

The tables on the following page present our results of operations, the effect of including the results of the Tyler Terminal and Tank Assets and the adjusted total amounts included in our condensed combined consolidated financial statements.

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Condensed Combined Consolidated Balance Sheet as of December 31, 2012

	Delek Logistics Partners, LP	Tyler Terminal and Tank Assets (Tyler Predecessor)	Delek Logistics Partners, LP December 31, 2012
		(In thousands)	
ASSETS			
Current Assets:			
Cash and cash equivalents	$23,452	$—	$23,452
Accounts receivable	27,725	—	27,725
Inventory	14,351	—	14,351
Deferred tax assets	14	—	14
Other current assets	169	—	169
Total current assets	65,711	—	65,711
Property, plant and equipment:			
Property, plant and equipment	172,300	43,748	216,048
Less: accumulated depreciation	(18,790)	(6,201)	(24,991)
Property, plant and equipment, net	153,510	37,547	191,057
Goodwill	10,454	—	10,454
Intangible assets, net	12,430	—	12,430
Other non-current assets	3,664	—	3,664
Total assets	$245,769	$37,547	$283,316
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	$21,849	$—	$21,849
Accounts payable to related parties	10,148	—	10,148
Fuel and other taxes payable	4,650	—	4,650
Accrued expenses and other current liabilities	3,615	35	3,650
Total current liabilities	40,262	35	40,297
Non-current liabilities:			
Revolving credit facility	90,000	—	90,000
Asset retirement obligations	1,440	1,737	3,177
Deferred tax liability	17	—	17
Other non-current liabilities	9,625	185	9,810
Total non-current liabilities	101,082	1,922	103,004
Equity:			
Predecessors division equity	—	35,590	35,590
Common unitholders - public (9,200,000 units issued and outstanding)	178,728	—	178,728
Common unitholders - Delek (2,799,258 units issued and outstanding)	(127,129)	—	(127,129)
Subordinated unitholders - Delek (11,999,258 units issued and outstanding)	52,875	—	52,875
General Partner unitholders - Delek (489,766 units issued and outstanding)	(49)	—	(49)
Total equity	104,425	35,590	140,015
Total liabilities and equity	$245,769	$37,547	$283,316

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Condensed Statements of Combined Consolidated Operations

	Delek Logistics Partners, LP	Tyler Terminal and Tank Assets (Tyler Predecessor)	Three Months Ended September 30, 2013
		(In thousands)	
Net Sales	$243,295	$—	$243,295
Operating costs and expenses:			
Cost of goods sold	218,222	—	218,222
Operating expenses	6,645	829	7,474
General and administrative expenses	1,782	86	1,868
Depreciation and amortization	2,600	244	2,844
Total operating costs and expenses	229,249	1,159	230,408
Operating income (loss)	14,046	(1,159)	12,887
Interest expense, net	1,194	—	1,194
Net income (loss) before income tax expense	12,852	(1,159)	11,693
Income tax expense	307	—	307
Net income (loss)	12,545	(1,159)	11,386
Less: (Loss) attributable to Predecessors	—	(1,159)	(1,159)
Net income attributable to partners	$12,545	$—	$12,545

	Delek Logistics Partners, LP (DKL Predecessor)	Tyler Terminal and Tank Assets (Tyler Predecessor)	Three Months Ended September 30, 2012 (Predecessors)
		(In thousands)	
Net Sales	$271,806	$—	$271,806
Operating costs and expenses:			
Cost of goods sold	255,281	—	255,281
Operating expenses	6,579	2,961	9,540
General and administrative expenses	1,614	190	1,804
Depreciation and amortization	2,255	361	2,616
Loss on sale of assets	5	—	5
Total operating costs and expenses	265,734	3,512	269,246
Operating income (loss)	6,072	(3,512)	2,560
Interest expense, net	667	—	667
Income (loss) before income tax expense	5,405	(3,512)	1,893
Income tax expense	2,437	—	2,437
Net income (loss)	2,968	(3,512)	(544)
Less: Income (loss) attributable to Predecessors	2,968	(3,512)	(544)
Net income attributable to partners	$—	$—	$—

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	Delek Logistics Partners, LP	Tyler Terminal and Tank Assets (Tyler Predecessor) (In thousands)	Nine Months Ended September 30, 2013
Net Sales	$684,331	$—	$684,331
Operating costs and expenses:			
Cost of goods sold	614,048	—	614,048
Operating expenses	18,574	4,501	23,075
General and administrative expenses	4,570	602	5,172
Depreciation and amortization	7,324	1,750	9,074
Total operating costs and expenses	644,516	6,853	651,369
Operating income (loss)	39,815	(6,853)	32,962
Interest expense, net	2,763	—	2,763
Net income (loss) before income tax expense	37,052	(6,853)	30,199
Income tax expense	547	—	547
Net income (loss)	36,505	(6,853)	29,652
Less: (Loss) attributable to Predecessors	—	(6,853)	(6,853)
Net income attributable to partners	$36,505	$—	$36,505

	Delek Logistics Partners, LP (DKL Predecessor)	Tyler Terminal and Tank Assets (Tyler Predecessor) (In thousands)	Nine Months Ended September 30, 2012 (Predecessors)
Net Sales	$773,369	$—	$773,369
Operating costs and expenses:			
Cost of goods sold	729,750	—	729,750
Operating expenses	15,673	4,964	20,637
General and administrative expenses	6,367	570	6,937
Depreciation and amortization	6,649	1,071	7,720
Loss on sale of assets	5	—	5
Total operating costs and expenses	758,444	6,605	765,049
Operating income (loss)	14,925	(6,605)	8,320
Interest expense, net	1,777	—	1,777
Net income (loss) before income tax expense	13,148	(6,605)	6,543
Income tax expense	5,183	—	5,183
Net income (loss)	7,965	(6,605)	1,360
Less: Income (loss) attributable to Predecessors	7,965	(6,605)	1,360
Net income attributable to partners	$—	$—	$—

3. Inventory

Inventories consisted of $21.2 million and $14.4 million of refined petroleum products as of September 30, 2013 and December 31, 2012, respectively. Cost of inventory is stated at the lower of cost or market, determined on a first-in, first-out basis.

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4. Amended and Restated Credit Agreement

We entered into a $175.0 million senior secured revolving credit agreement concurrent with the completion of the Offering on November 7, 2012, with Fifth Third Bank, as administrative agent, and a syndicate of lenders, which was amended and restated on July 9, 2013 (the “Amended and Restated Credit Agreement”). Under the terms of the Amended and Restated Credit Agreement, the lender commitments were increased from $175.0 million to $400.0 million and a dual currency borrowing tranche was added that permits draw downs in U.S. or Canadian dollars. The Amended and Restated Credit Agreement also contains an accordion feature whereby the Partnership can increase the size of the credit facility to an aggregate of $450.0 million, subject to receiving increased or new commitments from lenders and the satisfaction of certain other conditions precedent. The Amended and Restated Credit Agreement matures on November 7, 2017.

Borrowings denominated in U.S. dollars under the Amended and Restated Credit Agreement bear interest at either a U.S. dollar prime rate, plus an applicable margin, or a LIBOR rate, plus an applicable margin, at the election of the borrowers. Borrowings denominated in Canadian dollars under the Amended and Restated Credit Agreement bear interest at either a Canadian dollar prime rate, plus an applicable margin, or a CDOR (Canadian Dealer Offered Rate), plus an applicable margin, at the election of the borrowers. The applicable margin in each case varies based upon the Partnership's most recently reported leverage ratio. At September 30, 2013, the weighted average interest rate was approximately 2.0%. Additionally, the Amended and Restated Credit Facility requires us to pay a leverage ratio dependent quarterly fee on the average unused revolving commitment. As of September 30, 2013, this fee was 0.25% per year.

The obligations under the Amended and Restated Credit Agreement remain secured by first priority liens on substantially all of the Partnership's and its U.S. subsidiaries' tangible and intangible assets. Additionally, Delek Marketing continues to provide a limited guaranty of the Partnership's obligations under the Amended and Restated Credit Agreement. Delek Marketing's guaranty is (i) limited to an amount equal to the principal amount, plus unpaid and accrued interest, of a promissory note made by Delek US in favor of Delek Marketing (the "Holdings Note") and (ii) secured by Delek Marketing's pledge of the Holdings Note to our lenders under the Amended and Restated Credit Agreement. As of September 30, 2013, the principal amount of the Holdings Note was $102.0 million, plus unpaid interest accrued since the issuance date.
As of September 30, 2013, we had $161.0 million of outstanding borrowings under the Amended and Restated Credit Agreement. Additionally, we had in place letters of credit totaling approximately $13.5 million with Fifth Third Bank, primarily securing obligations with respect to gasoline and diesel purchases. No amounts were outstanding under these letters of credit at September 30, 2013. Amounts available under the Amended and Restated Credit Agreement as of September 30, 2013 were approximately $225.5 million.

5. Income Taxes
Our effective income tax rate decreased to 2.6% for the three months ended September 30, 2013 compared to the DKL Predecessor's effective income tax rate of 128.7% for the three months ended September 30, 2012. The decrease in our effective tax rate is due to the fact that 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. The effective tax rate for the three months ended September 30, 2012 is significantly higher than that of the three months ended September 30, 2013 due to the impact of the additional expense in connection with the Tyler Terminal and Tank Assets and the application of a federal income tax in 2012. For tax purposes, each partner of the Partnership is required to take into account its share of income, gain, loss and deduction in computing 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.

Prior to the Offering, the DKL Predecessor was an entity included in its parent's consolidated tax return. As such, the DKL Predecessor was subject to both federal and state income taxes and recorded deferred income taxes for the differences between the book and tax bases of its assets and liabilities, which are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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6. Net Income Per Unit

We use the two-class method when calculating the net income per unit applicable to limited partners because we have more than one participating security. The two-class method is based on the weighted-average number of common units outstanding during the period. Basic net income per unit applicable to limited partners (including subordinated unitholders) is computed by dividing limited partners’ interest in net income, after deducting our general partner’s 2% interest and incentive distributions, if any, by the weighted-average number of outstanding common and subordinated units. Our net income is allocated to our general partner and limited partners in accordance with their respective partnership percentages after giving effect to priority income allocations for incentive distributions, if any, to our general partner, which is the holder of the incentive distribution rights pursuant to our partnership agreement, which are declared and paid following the close of each quarter.

Net income per unit is only calculated for periods after the Offering as no units were outstanding prior to November 7, 2012. Earnings in excess of distributions are allocated to our general partner and limited partners based on their respective ownership interests. Payments made to our unitholders are determined in relation to actual distributions declared and are not based on the net income allocations used in the calculation of net income per unit. The basic weighted-average number of units outstanding for the nine months ended September 30, 2013 increased to 24,503,469 units from 24,492,095 units in the second quarter 2013.

Diluted net income per unit applicable to common limited partners includes the effects of potentially dilutive units on our common units. At present, the only potentially dilutive units outstanding consist of unvested phantom units. Basic and diluted net income per unit applicable to subordinated limited partners are the same because there are no potentially dilutive subordinated units outstanding.

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Our distributions are declared subsequent to quarter end. Therefore, the table represents total cash distributions applicable to the period in which the distributions are earned. The calculation of net income per unit is as follows (dollars in thousands, except per unit amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Income	$12,545	$—	$36,505	$—
Less: General partner's distribution	198	—	580	—
Less: Limited partners' distribution	4,875	—	14,249	—
Less: Subordinated partner's distribution	4,860	—	14,219	—
Earnings in excess of distributions	$2,612	$—	$7,457	$—
General partner's earnings:				
Distributions	$198	—	$580	—
Allocation of earnings in excess of distributions	52	—	149	—
Total general partner's earnings	$250	$—	$729	$—
Limited partners' earnings on common units:				
Distributions	$4,875	—	$14,249	—
Allocation of earnings in excess of distributions	1,282	—	3,658	—
Total limited partners' earnings on common units	$6,157	$—	$17,907	$—
Limited partners' earnings on subordinated units:				
Distributions	$4,860	—	$14,219	—
Allocation of earnings in excess of distributions	1,278	—	3,650	—
Total limited partner's earnings on subordinated units	$6,138	$—	$17,869	$—
Weighted average limited partner units outstanding:				
Common units - (basic)	12,036,821		12,014,445	
Common units - (diluted)	12,188,342		12,152,657	
Subordinated units - Delek (basic and diluted)	11,999,258		11,999,258	
Net income per limited partner unit:				
Common - (basic)	$0.51		$1.49	
Common - (diluted)	$0.51		$1.48	
Subordinated - (basic and diluted)	$0.51		$1.49	

7. Equity

We had 9,237,563 common limited partner units held by the public outstanding as of September 30, 2013. Additionally, as of September 30, 2013, Delek owned a 60.3% limited partner interest in us, consisting of 2,799,258 common limited partner units and 11,999,258 subordinated limited partner units as well as a 98.6% interest in our general partner, which owns the entire 2.0% general partner interest consisting of 490,532 general partner units. In accordance with our partnership agreement, Delek's subordinated units may convert to common units once specified distribution targets and other requirements have been met.

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Equity Activity

The summarized changes in the carrying amount of our equity are as follows:

	Equity of Predecessors	Common - public	Common - Delek	Subordinated	General Partner	Total
Balance at December 31, 2012	$35,590	$178,728	$(127,129)	$52,875	$(49)	$140,015
Income attributable to Predecessors	(6,853)	—	—	—	—	(6,853)
Sponsor contributions of equity to the Predecessors	9,317	—	—	—	—	9,317
Liabilities not assumed by the Partnership	213	—	—	—	—	213
Allocation of net assets acquired by the unitholders (1)	(38,267)	—	37,502	—	765	—
Cash Distributions (1)	—	(9,252)	(95,714)	(12,047)	(2,388)	(119,401)
Sponsor contribution of fixed assets	—	—	101	—	4	105
Partnership Earnings	—	13,738	4,169	17,869	729	36,505
Unit-based compensation	—	1,442	—	—	(1,263)	179
Balance at September 30, 2013	$—	$184,656	$(181,071)	$58,697	$(2,202)	$60,080

(1) Cash distributions include $94.8 million in cash payments for the Tyler Acquisition. As an entity under common control with Delek, we record the assets that we acquire from Delek on our balance sheet at Delek's historical book value instead of fair value. Additionally, any excess of cash paid over the historical book value of the assets acquired from Delek is recorded within equity. As a result of the Tyler Acquisition, our equity balance decreased $56.5 million from December 31, 2012 to September 30, 2013.

Allocations of Net Income

Our partnership agreement contains provisions for the allocation of net income and loss to the unitholders and our general partner. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage interest. Normal allocations according to percentage interests are made after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to our general partner.

Cash Distributions

Our partnership agreement sets forth the calculation to be used to determine the amount and priority of cash distributions that the common and subordinated unitholders and general partner will receive. Our distributions are declared subsequent to quarter end. The table below summarizes the quarterly distributions related to our quarterly financial results:

Quarter Ended	Total Quarterly Distribution Per Unit	Total Quarterly Distribution Per Unit, Annualized	Total Cash Distribution (in thousands)	Date of Distribution	Unitholders Record Date
December 31, 2012 (1)	$0.224	$0.90	$5,486	February 14, 2013	February 6, 2013
March 31, 2013	$0.385	$1.54	$9,428	May 15, 2013	May 7, 2013
June 30, 2013	$0.395	$1.58	$9,687	August 13, 2013	August 6, 2013
September 30, 2013 (2)	$0.405	$1.62	$9,933	November 14, 2013	November 7, 2013

(1) Represents the period from November 7, 2012, the date of the Offering, to December 31, 2012
(2) Declared on October 25, 2013.

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The allocation of total quarterly cash distributions expected to be made to general and limited partners is as follows for the three and nine months ended September 30, 2013. Our distributions are declared subsequent to quarter end. Therefore, the table below represents total cash distributions applicable to the period in which the distributions are earned (in thousands, except per unit amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
General partner's interest	$198	$—	$580	$—
Limited partners' distribution:				
Common	4,875	$—	14,249	$—
Subordinated	4,860	—	14,219	—
Total cash distributions	$9,933	$—	$29,048	$—
Cash distributions per unit	$0.405		$1.185	

8. Equity Based Compensation

We incurred $0.1 million and $0.2 million of unit-based compensation expense related to the Partnership during the three and nine months ended September 30, 2013, respectively. The fair value of our phantom units is determined based on the closing price of our common limited partner units on the grant date. The estimated fair value of our phantom units is amortized over the vesting period using the straight line method. Awards vest over a five-year service period. As of September 30, 2013, there was $1.1 million of total unrecognized compensation cost related to non-vested equity-based compensation arrangements, which is expected to be recognized over a weighted-average period of 4.2 years.

Sponsor's Stock-Based Compensation

Certain employees supporting the DKL Predecessor's operations received long-term incentive compensation that is part of the Delek US Holdings, Inc. 2006 Long-Term Incentive Plan, as amended (the “2006 Plan”). The 2006 Plan allows Delek to grant stock options, stock appreciation rights ("SARs"), restricted stock units and other stock-based awards denominated in shares of Delek's common stock to certain directors, officers, employees, consultants and other individuals who perform services for Delek or its affiliates, including these employees. Delek uses the Black-Scholes-Merton option-pricing model to determine the fair value of stock option and SAR awards, of the SARs granted to certain executive employees, which are valued under the Monte-Carlo simulation model. Restricted stock units are measured based on the fair market value of the underlying stock on the date of grant. Compensation expense related to stock-based awards is generally recognized with graded or cliff vesting on a straight-line basis over the vesting period.

Certain Delek employees supporting the DKL Predecessor's operations were historically granted these types of awards. These costs were recorded as compensation expense and additional paid-in capital and totaled a nominal amount related to the DKL Predecessor's employees for the three and nine months ended September 30, 2012. The DKL Predecessor recognized additional compensation expense related to equity-based compensation awards to related party employees of $0.2 million and $0.5 million for the three and nine months ended September 30, 2012 for allocated related party services and an allocation of director and executive officer equity-based compensation.

As of September 30, 2012, there was $0.5 million of total unrecognized compensation cost related to non-vested equity-based compensation arrangements for the DKL Predecessor's employees, which was expected to be recognized over a weighted-average period of 3.0 years. Subsequent to the Offering, these costs are allocated to the Partnership as part of the administrative fees under the omnibus agreement.

9. Segment Data

We report our assets and operating results in two reportable segments: (i) pipelines and transportation and (ii) wholesale marketing and terminalling:

- The pipelines and transportation segment provides crude oil gathering, transportation and storage services to Delek's refining operations and independent third parties.

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- The wholesale marketing and terminalling segment provides marketing and terminalling services to Delek's refining operations and independent third parties.

Our operating segments adhere to the same accounting polices used for our consolidated financial statements. Our operating segments are managed separately because each segment requires different industry knowledge, technology and marketing strategies. Decisions concerning the allocation of resources and assessment of operating performance are made based on this segmentation. Management measures the operating performance of each of its reportable segments based on the segment contribution margin. Segment contribution margin is defined as net sales less cost of sales and operating expenses, excluding depreciation and amortization.

On July 26, 2013, we acquired the Tyler Terminal and Tank Assets from Delek. Our and our Predecessors' historical financial statements have been retrospectively adjusted to reflect the results of operations attributable to the Tyler Terminal and Tank Assets as if we owned the assets for all periods presented. The results of the Tyler Terminal and the Tyler Tank Assets are included in the wholesale marketing and terminalling segment and the pipelines and transportation segment, respectively.

The following is a summary of business segment operating performance as measured by contribution margin for the period indicated (in thousands):

	Three Months Ended September 30, 2013		
	Pipelines and Transportation	Wholesale Marketing and Terminalling	Consolidated
Net sales	$15,743	$227,552	$243,295
Operating costs and expenses:			
Cost of goods sold	—	218,222	218,222
Operating expenses	5,660	1,814	7,474
Segment contribution margin	$10,083	$7,516	17,599
General and administrative expenses			1,868
Depreciation and amortization			2,844
Operating income			$12,887
Total assets	$164,963	$122,415	$287,378
Capital spending (excluding business combinations) (1)	1,065	517	$1,582

(1) Capital spending includes expenditures incurred in connection with the assets acquired in the Tyler Acquisition.

	Three Months Ended September 30, 2012		
	Predecessors		
	Pipelines and Transportation	Wholesale Marketing and Terminalling	Combined
Net sales	$7,960	$263,846	$271,806
Operating costs and expenses:			
Cost of goods sold	—	255,281	255,281
Operating expenses	7,241	2,299	9,540
Segment contribution margin	$719	$6,266	6,985
General and administrative expenses			1,804
Depreciation and amortization			2,616
Loss on sale of assets			5
Operating income			$2,560
Total assets	$145,380	$139,446	$284,826
Capital spending (excluding business combinations) (1)	$5,064	$324	$5,388

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[(1)] Capital spending includes expenditures incurred in connection with the assets acquired in the Tyler Acquisition.

	Nine Months Ended September 30, 2013		
	Pipelines and Transportation	Wholesale Marketing and Terminalling	Consolidated
Net sales	$43,008	$641,323	$684,331
Operating costs and expenses:			
Cost of goods sold	—	614,048	614,048
Operating expenses	18,193	4,882	23,075
Segment contribution margin	$24,815	$22,393	47,208
General and administrative expenses			5,172
Depreciation and amortization			9,074
Operating income			$32,962
Capital spending (excluding business combinations) [(1)]	6,513	1,368	$7,881

[(1)] Capital spending includes expenditures incurred in connection with the assets acquired in the Tyler Acquisition.

	Nine Months Ended September 30, 2012		
	Predecessors		
	Pipelines and Transportation	Wholesale Marketing and Terminalling	Combined
Net sales	$21,440	$751,929	$773,369
Operating costs and expenses:			
Cost of goods sold	—	729,750	729,750
Operating expenses	16,149	4,488	20,637
Segment contribution margin	$5,291	$17,691	22,982
General and administrative expenses			6,937
Depreciation and amortization			7,720
Loss on sale of assets			5
Operating income			$8,320
Capital spending (excluding business combinations) [(1)]	$15,400	$1,300	$16,700

[(1)] Capital spending includes expenditures incurred in connection with the assets acquired in the Tyler Acquisition.

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Property, plant and equipment, accumulated depreciation and depreciation expense by reporting segment as of and for the three and nine months ended September 30, 2013 were as follows (in thousands):

	Pipelines and Transportation	Wholesale Marketing and Terminalling	Consolidated
Property, plant and equipment	$173,962	$55,791	$229,753
Less: accumulated depreciation	(20,278)	(12,986)	(33,264)
Property, plant and equipment, net	$153,684	$42,805	$196,489
Depreciation expense for the three months ended September 30, 2013	$2,144	$469	$2,613
Depreciation expense for the nine months ended September 30, 2013	$6,856	$1,421	$8,277

In accordance with ASC 360, Property, Plant & Equipment, we evaluate the realizability of property, plant and equipment as events occur that might indicate potential impairment.

10. Fair Value Measurements

The fair values of financial instruments are estimated based upon current market conditions and quoted market prices for the same or similar instruments. Management estimates that the carrying value approximates fair value for all of our assets and liabilities that fall under the scope of ASC 825, Financial Instruments.

We apply the provisions of ASC 820, Fair Value Measurements ("ASC 820"), which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurements. ASC 820 applies to our interest rate and commodity derivatives that are measured at fair value on a recurring basis. The standard also requires that we assess the impact of nonperformance risk on our derivatives. Nonperformance risk is not considered material at this time.

ASC 820 requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs. Level 3 inputs are unobservable inputs for the asset or liability reflecting our assumptions about pricing by market participants.

Over the counter commodity swaps and sale contracts are generally valued using industry-standard models that consider various assumptions, including quoted forward prices, time value, volatility factors and contractual prices for the underlying instruments, as well as other relevant economic measures. The degree to which these inputs are observable in the forward markets determines the classification as Level 2 or 3. Our over the counter commodity swaps are valued using quotations provided by brokers based on exchange pricing and/or price index developers such as Platts or Argus. These are classified as Level 2.

The fair value hierarchy for our financial assets accounted for at fair value on a recurring basis at September 30, 2013 was as follows (in thousands):

	As of September 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate derivatives	$—	$159	$—	$159
Commodity derivatives	—	120	—	120
Total assets	$—	$279	$—	$279

As of December 31, 2012, there was a nominal amount of financial liabilities accounted for at fair value on a recurring basis.

The derivative values above are based on analysis of each contract as the fundamental unit of account as required by ASC 820. Derivative assets and liabilities with the same counterparty are not netted where the legal right of offset exists. This differs from the presentation in the financial statements which reflects our policy under the guidance of ASC 815-10-45, Derivatives and Hedging - Other Presentation Matters ("ASC 815-10-45"), wherein we have elected to offset the fair value amounts recognized

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for multiple derivative instruments executed with the same counterparty where the legal right of offset exists. As of December 31, 2012, a nominal amount of net derivative positions are included in other current assets and other current liabilities, respectively on the accompanying condensed consolidated balance sheets.

Our policy under the guidance of ASC 815-10-45, is to net the fair value amounts recognized for multiple derivative instruments executed with the same counterparty and offset these values against the cash collateral arising from these derivative positions. As of September 30, 2013 and December 31, 2012, $0.2 million and a nominal amount, respectively, of cash collateral was held by counterparty brokerage firms.

11. Derivative Instruments

From time to time, we enter into forward fuel contracts to limit the exposure to price fluctuations for physical purchases of finished products in the normal course of business. We use derivatives to reduce normal operating and market risks with a primary objective in derivative instrument use being the reduction of the impact of market price volatility on our results of operations.

We enter into forward fuel contracts with major financial institutions in which we fix the purchase price of finished grade fuel for a predetermined number of units with fulfillment terms of less than 90 days. During the three and nine months ended September 30, 2013 and September 30, 2012, we did not elect hedge treatment for these derivative positions. As a result, all changes in fair value are marked to market in the accompanying condensed consolidated statements of income.

From time to time, we may also enter into interest rate hedging agreements to limit variable interest rate exposure under the Amended and Restated Credit Agreement. The prior credit facility required us to maintain interest rate hedging arrangements on at least 50% of the amount funded on November 7, 2012 under the credit facility, which was required to be in place for at least a three-year period beginning no later than March 7, 2013. Effective February 25, 2013, we entered into interest rate hedges in the form of a LIBOR interest rate cap for a term of three years for a total notional amount of $45.0 million, thereby meeting the requirements.

The table below presents the fair value of our derivative instruments, as of September 30, 2013. As of December 31, 2012, there was a nominal amount of financial liabilities accounted for at fair value on a recurring basis (in thousands).

		September 30, 2013	
Derivative Type	Balance Sheet Location	Assets	Liabilities
Derivatives not designated as hedging instruments:			
Interest rate derivatives	Other long term assets	$159	$—
Commodity derivatives	Other current assets	$120	$—
Total net fair value of derivatives		$279	$—

Gains (losses) recognized associated with derivatives not designated as hedging instruments for the three and nine months ended September 30, 2013 were as follows (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Type	Income Statement Location	2013	2012	2013	2012
			Predecessors		Predecessors
Interest rate derivatives	Interest expense	$(88)	$—	$(63)	$—
Commodity derivatives	Cost of goods sold	(311)	71	(481)	304
	Total	$(399)	$71	$(544)	$304

As of December 31, 2012, unrealized gains or losses held on the condensed consolidated balance sheets were nominal.

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12. Commitments and Contingencies

Litigation

In the ordinary conduct of our business, we are from time to time subject to lawsuits, investigations and claims, including environmental claims and employee-related matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, including civil penalties or other enforcement actions, we do not believe that any currently pending legal proceeding or proceedings to which we are a party will have a material adverse effect on our business, financial condition or results of operations.

Rate Regulation of Petroleum Pipelines

The rates and terms and conditions of service on certain of our pipelines are subject to regulation by the Federal Energy Regulatory Commission (“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 appropriate entities. We also comply with the reporting requirements for these pipelines. Other of our pipelines have received a waiver from application of FERC's tariff requirements but will comply with other regulatory requirements.

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 and reasonable and non-discriminatory and that such rates and terms and conditions of service be filed with FERC. Under the ICA, shippers may challenge new or existing rates or services. 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. Tariff rates are typically contractually subject to increase or decrease on July 1 of each year, beginning on July 1, 2013, by the amount of any change in FERC oil pipeline index or, in the case of the east Texas marketing agreement and the Tyler Throughput and Tankage Agreement to other inflation based indexes; provided, however, that in no event will the fees be adjusted below the amount initially set forth in the applicable agreement.

While 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. We own pipeline assets in Texas, Arkansas, and Louisiana.

Environmental Health and Safety

We are subject to various federal, state and local environmental and safety laws enforced by agencies including the U.S. Environmental Protection Agency (the "EPA"), the U.S. Department of Transportation ("DOT") / 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 (the "ADEQ") 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, and related operations, and may be subject to revocation, modification and renewal.

These laws and permits raise 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 which we manufactured, handled, used, released or disposed, 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 operating procedures and in 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.

Magnolia Station Crude Oil Release

On March 9, 2013, a release of crude oil was detected within a pumping facility at our Magnolia Station located west of Delek's El Dorado, Arkansas refinery (the "El Dorado Refinery"). The pumping facility is owned by our subsidiary SALA Gathering Systems, LLC. Since detecting the release we have worked to contain the release, recover the released crude oil and remediate

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those areas impacted by the release, coordinating our efforts with the EPA and state authorities to restore the impacted area to the satisfaction of the appropriate regulatory authorities. As of the date of this filing, we believe we have substantially completed all necessary remediation, restoration and monitoring of the areas affected by the crude oil release, although there are on-going discussions with ADEQ regarding whether additional monitoring or remediation of soil may be necessary. The release did not impact the delivery of crude oil from the Magnolia Station to the El Dorado Refinery and did not interrupt the operations of the El Dorado Pipeline connected to the Magnolia Station. We believe the total costs and liabilities associated with this event are immaterial to our operations and financial results as Delek is required, pursuant to the terms of the omnibus agreement (as described in Note 13—Related Party Transactions) to pay to us any costs in excess of $0.25 million with respect to this event that we incurred as a result of the failure at the pumping facility and resulting release.

Contracts and Agreements

Substantially all of the petroleum products we sell in west Texas are purchased from two suppliers, Noble Petro, Inc. ("Noble Petro") and Magellan Asset Services, L.P. ("Magellan"). Under the terms of a supply contract (the "Abilene Contract") with Noble Petro, we are able to purchase up to 20,350 bpd of petroleum products at the Abilene, Texas terminal, which we own, for sales at the Abilene and San Angelo terminals and to exchange barrels with third parties. We lease the Abilene and San Angelo, Texas terminals to Noble Petro, under a separate Terminal and Pipeline Lease and Operating Agreement, with a term that runs concurrent with that of the Abilene Contract. The Abilene Contract expires on December 31, 2017. There are no options to renew the contract.

Under the terms of our contract with Magellan (the "East Houston Contract"), we can purchase up to 7,000 bpd of refined products for delivery into the Magellan pipeline system in East Houston, Texas. This contract currently expires on December 31, 2015, but can also terminate earlier if Magellan's underlying supply contract with a third party is ever terminated or expires. While the primary purpose of the East Houston Contract is to supply products at Magellan's Aledo, Texas terminal, the agreement allows us to redirect products to other terminals along the Magellan pipeline.

Letters of Credit

As of September 30, 2013, we had in place letters of credit totaling approximately $13.5 million under the Amended and Restated Credit Agreement primarily securing obligations with respect to gasoline and diesel purchases. No amounts were outstanding under these letters of credit at September 30, 2013.

Operating Leases

We lease certain equipment and have surface leases under various operating lease arrangements, most of which provide the option, after the initial lease term, to renew the leases. None of these lease arrangements include fixed rental rate increases. Lease expense for all operating leases totaled $0.1 million and $0.3 million, respectively for the three and nine months ended September 30, 2013 and $0.1 million and $0.2 million for the three and nine months ended September 30, 2012, respectively.

We have a five-year ground lease agreement with Lion Oil effective November 7, 2012 for the land on which an above ground storage tank and related facilities are located. The land measures approximately seven acres of Lion Oil's refinery site. The tank and related facilities are used for the storage and throughput of such crude oil or other hydrocarbon substances or any resulting refined products. The fees paid to Lion Oil were nominal for the three and nine months ended September 30, 2013.

In connection with the Tyler Acquisition, we and Delek entered into a lease and access agreement with respect to the real property at the Tyler Terminal and Tank Assets. Under this agreement, we will lease from Delek the real property on which the Tyler Terminal and Tank Assets are located for $100.00 annually, paid in advance, with an initial term of 50 years with automatic renewal for a maximum of four successive 10-year periods thereafter.

13. Related Party Transactions

Commercial Agreements in Connection with the Offering

The Partnership entered into various long-term, fee-based commercial agreements with Delek at the completion of the Offering. Except where noted, each of these agreements, described below, became effective on November 7, 2012, concurrent with the completion of the Offering. Each of these agreements include minimum quarterly volume or throughput commitments and have 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. 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 can 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 the applicable Delek asset, or (b) if Delek shuts down the applicable refinery upon giving 12 months' notice, which such notice may only be given after the first two years of the applicable commercial agreement's term. In addition, Delek may terminate any of these agreements under certain circumstances.

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 entered into at the completion of the Offering, 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 FERC oil pipeline index or, in the case of the east Texas marketing agreement and the Tyler Throughput and Tankage agreement, to FERC or other inflation based indexes, 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.

Lion Pipeline and SALA Gathering Systems. We entered into a pipelines and storage facilities agreement with Delek under which we provide transportation and storage services to the El Dorado Refinery for crude oil and finished products. Under this pipelines and storage facilities agreement, Delek is obligated to meet certain minimum aggregate throughput volumes 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 $0.89 per barrel, which tariff runs through June 30, 2014. 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 $0.104 per barrel, which tariff runs through June 30, 2014. Tariff rates are subject to increase or decrease on July 1 of each year by the amount of any change in the FERC oil pipeline index.
- 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 $2.35 per barrel, which tariff runs through June 30, 2014. 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. Tariff rates are subject to increase or decrease on July 1 of each year by the amount of any change in the FERC oil pipeline index.

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 the Tyler Refinery. This agreement replaced the pipelines and tankage agreement between Delek and the DKL Predecessor. Going forward, crude oil volumes transported on our East Texas Crude Logistics System will decrease from approximately 55,000 bpd to approximately 12,000 bpd or less. Under the current pipelines and tankage agreement, Delek is obligated to meet minimum aggregate throughput volumes of crude oil of at least 35,000 bpd, calculated on a quarterly average basis, on our East Texas Crude Logistics System for a transportation fee of $0.42 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 $0.22 per barrel. In addition, Delek pays a storage fee of $261,480 per month for the use of our crude oil storage tanks along our East Texas Crude Logistics system. The fees paid to us are subject to increase or decrease on July 1 of each year.

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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 the DKL 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 $0.6065 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. Fees are subject to increase or decrease on July 1 of each year by the amount of any change in the consumer price index.

Terminalling. We entered into two five-year terminalling services agreements pursuant to which Delek pays us fees for providing terminalling and other services to Delek at our Memphis and Big Sandy Terminals, as well as for storing product at our Big Sandy Terminal. The minimum throughput commitment 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 $0.52 per barrel. The fees paid to us are subject to increase or decrease on July 1 of each year.

Even though the Big Sandy Terminal has not been operational because the Hopewell Pipeline, which is necessary for the use of the terminal, is out of service, Delek paid to us terminal fees for the Big Sandy Terminal a minimum of 5,000 bpd of refined products from the Tyler Refinery and a storage fee of $52,250 per month, the minimum payment due per the agreement during the quarter ended September 30, 2013. We expect the Big Sandy Terminal to be operational in the fourth quarter 2013.

On July 19, 2013, we acquired the Hopewell Pipeline in order to effectively connect it with the Big Sandy Pipeline and thereby return the Big Sandy Terminal to operation. In connection with the acquisition, on July 25, 2013, we and Delek entered into the Amended and Restated Services Agreement (Big Sandy Terminal and Pipeline), which amended and restated the terminalling services agreement for the Big Sandy Terminal originally entered into in connection with the Offering. Under the amended and restated agreement, Delek is also obligated to throughput a minimum aggregate volume of at least 5,000 bpd through the Tyler-Big Sandy Pipeline, calculated on a quarterly average basis, and must pay a transportation fee of $0.52 per barrel to us for volumes shipped on the pipeline in addition to its terminal throughput obligations described above.

Commercial Agreements in Connection with the Tyler Acquisition

On July 26, 2013, in connection with the Tyler Acquisition, we and Delek entered into a throughput and tankage agreement with respect to the Tyler Terminal and Tank Assets. Under the agreement, we will provide Delek with throughput and storage services in return for throughput and storage fees. During each calendar quarter, Delek is obligated to throughput an aggregate amount of at least 50,000 bpd of certain refined products through the Tyler Terminal at a throughput fee of $0.35 per barrel (the "Throughput Fee"). Delek is also subject to a $841,667 per month storage fee for the right to use the active shell capacity of the Tyler Storage Tanks. The fees under the agreement are indexed annually, on July 1, for inflation. The initial term of the agreement is eight years and Delek, at its sole option, may extend the term for two renewal terms of four years each. If Delek does not throughput the aggregate amounts equal to the minimum throughput commitments described above during any calendar quarter, Delek shall pay us a shortfall payment equal to the shortfall volume multiplied by the Throughput Fee. Delek paid us approximately $3.3 million pursuant to the agreement for the three and nine months ended September 30, 2013.

As set forth in the agreement, we are obligated to maintain certain throughput and storage capacities. Failure to meet such obligations may result in a reduction of fees payable under the agreement.

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Tyler Lease and Access Agreement. In connection with the Tyler Acquisition, we and Delek entered into a lease and access agreement with respect to the real property at the Tyler Terminal and Tank Assets. Under this agreement, we will lease from Delek the real property on which the Tyler Terminal and Tank Assets are located for $100.00 annually, paid in advance, with an initial term of 50 years with automatic renewal for a maximum of four successive 10-year periods thereafter.

Tyler Site Services Agreement. In connection with the Tyler Acquisition, we and Delek entered into a site services agreement. Under the site services agreement, Delek will provide us with shared use of certain services, materials and facilities that are necessary to operate and maintain the Tyler Terminal and Tank Assets as operated and maintained prior to our acquisition. We are subject to an initial annual service fee of $0.2 million with one-twelfth to be paid monthly to Delek. The annual service fee shall be adjusted on July 1 of each calendar year for inflation and may also increase by an amount equal to the actual cost to Delek of providing increased quantities of any items provided under this agreement. The term of the site services agreement is commensurate with the lease and access agreement discussed above.

Payments Made Under Commercial Agreements

The amounts paid under the commercial agreements with Delek described above during the three and nine months ended September 30, 2013 are as follows:

- Delek paid us approximately $9.8 million and $27.9 million pursuant to the Lion Pipeline System pipeline and storage facilities agreement and the Memphis terminalling agreement during the three and nine months ended September 30, 2013, respectively. Delek paid the DKL Predecessor approximately $4.4 million and $11.5 million for the three and nine months ended September 30, 2012, respectively for similar pipeline and storage facilities services.
- Delek paid us approximately $1.3 million and $6.0 million pursuant to the East Texas Crude Logistics System pipeline and tankage agreement during the three and nine months ended September 30, 2013, respectively, and paid the DKL Predecessor approximately $3.7 million and $8.5 million for the three and nine months ended September 30, 2012, respectively, under a similar pipeline and tankage agreement that was in place during that period but was replaced by the agreement referenced above dated November 7, 2012;
- Delek paid us approximately $3.6 million and $10.3 million pursuant to the East Texas marketing agreement during the three and nine months ended September 30, 2013, respectively, and paid the DKL Predecessor approximately $2.8 million and $9.2 million for the three and nine months ended September 30, 2012, respectively, under a similar marketing agreement that was in place during that period but was replaced by the agreement referenced above dated November 7, 2012; and
- Delek paid us approximately $0.6 million and $1.3 million pursuant to the terminalling agreement for services at our Big Sandy Terminal for the three and nine months ended September 30, 2013, respectively.
- Delek paid us approximately $3.3 million pursuant to the throughput and tankage agreement with respect to the Tyler Terminal and Tank Assets for the three and nine months ended September 30, 2013.

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

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

Other Agreements with Delek

In addition to the commercial agreements described above, the Partnership has entered into the following agreements with Delek:

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Omnibus Agreement

The Partnership entered into an omnibus agreement with Delek upon the completion of the Offering. Pursuant to the terms of the omnibus agreement, among other things, the omnibus agreement 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 during 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 sign the connection agreement described below under "Other Agreements."

Delek 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 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.

On July 26, 2013, in connection with the Tyler Acquisition, the Partnership entered into an amendment and restatement to the omnibus agreement with Delek. The amendment and restatement includes the following, among others: (i) certain modifications in the reimbursement by Delek and certain of its subsidiaries for certain operating expenses and capital expenditures incurred by the Partnership or its subsidiaries, (ii) certain modifications of the indemnification provisions in favor of the Partnership with respect to certain environmental matters, and (iii) the increase of the annual administrative fee payable by us to Delek for corporate general and administrative services. The amendment and restatement also increased the annual administrative fee payable by the Partnership to Delek for corporate general and administrative services that Delek and its affiliates provide under the omnibus agreement, from $2.7 million to $3.0 million, prorated and payable monthly. We paid Delek approximately $1.0 million and $2.8 million during both the three and nine months ended September 30, 2013, respectively, pursuant to this agreement. Delek paid us approximately $0.9 million pursuant to this agreement during the three months ended March 31, 2013 as indemnification relative to the Paline Pipeline System. No indemnification fees with respect to the Paline Pipeline System were paid to us during the three months ended September 30, 2013.

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 operation 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 reimburse Delek for such services under the operation and management services agreement. We and our subsidiaries paid Delek approximately $0.9 million and $5.9 million pursuant to this agreement during the three and nine months ended September 30, 2013, respectively.

On July 26, 2013, in connection with the Tyler Acquisition, the Partnership, our general partner and Delek Logistics Services Company terminated the operation and management services agreement. We will continue to reimburse our general partner for the services it provides to us under our partnership agreement. We reimbursed our general partner

$1.7 million pursuant to the partnership agreement during the three months ended September 30, 2013.

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Other Agreements

Paline Pipeline System Capacity Reservation. In 2011, prior to our purchase of the Paline Pipeline System, a major integrated oil company contracted with the prior owner of the Paline Pipeline System to reverse the pipeline to primarily run southbound. In exchange, the oil company agreed to pay for 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 was required to make only payments of $229,000 per month for this capacity until the final segment of the reversal of the Paline Pipeline System was completed and we entered 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. However, a connection agreement was fully executed in April 2013, even though our customer had not yet completed the work on its tanks. Because we completed our necessary work, we believe we were owed the full payment under the contract beginning in November 2012 but our customer paid only $229,000 per month in 2012 and during the first quarter 2013. Pursuant to our omnibus agreement with Delek (described above), Delek indemnified 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 if such failure is attributable to these conditions not being satisfied. Therefore, beginning in the second quarter 2013 and going forward we received the minimum amount payable of $529,250 per month under the contract as well as fees associated with throughput on volumes in excess of 30,000 bpd.

Delek Transactions

In addition to the agreements described above, we purchased finished product from Delek, totaling $22.6 million and $53.2 million during the three and nine months ended September 30, 2013, respectively. We also purchased bulk biofuels totaling $7.0 million and $19.5 million during the three and nine months ended September 30, 2013, respectively, from Delek for sale and exchange at our Abilene and San Angelo, Texas terminals. In addition, we sold Renewable Identification Numbers in the amount of approximately $1.7 million and $5.2 million to Delek during the three and nine months ended September 30, 2013.

DKL Predecessor Transactions

Related-party transactions of the DKL Predecessor were settled through division equity. The balances in receivables and accounts payable with affiliated companies represent the amount owed from or to Delek related to certain affiliate transactions. Revenues from affiliates in the condensed combined statements of income of the DKL Predecessor consist of revenues from gathering, pipeline transportation, storage, wholesale marketing and products terminalling services to Delek and its affiliates based on regulated tariff rates or contractually based fees.

Costs related specifically to us have been identified and included in the accompanying condensed combined statements of income. Prior to the Offering, we were not allocated certain corporate costs from Lion Oil. These costs were allocated as described further below. In the opinion of management, the methods for allocating these costs are reasonable. It is not practicable to estimate the costs that would have been incurred by us if we had been operated on a stand-alone basis.

MAPCO Express, Inc. ("Express"), provided general and administrative support for us, including services such as corporate management, accounting and payroll. In exchange for these services, we paid Express a monthly management fee. Total management fees paid to Express for the three and nine months ended September 30, 2012 were $0.3 million and $0.9 million, respectively, which is recorded in general and administrative expenses in the accompanying condensed combined statement of operations.

Payroll expenses for certain employees of Delek were transferred to us. In the three and nine months ended September 30, 2012, $0.5 million and $1.5 million, respectively in payroll expenses were reclassified to us from Delek and are included in general and administrative expenses in the accompanying condensed combined statements

of income.
Lion Oil provided general and administrative support for us, including services such as corporate management, insurance, accounting and payroll. The property and liability insurance costs were allocated to us based on a percentage of property and equipment cost until actual insurance costs were billed. Insurance allocations through June 30, 2012 were reversed during the three months ended September 30, 2012 due to the actual insurance costs being billed during those months, which resulted in a credit of $0.6 million to general and administrative expenses, whereas the actual insurance costs are recorded in operating expenses in the accompanying condensed combined statements of income. The remaining shared services costs were allocated based on a percentage of salaries expense and were $0.4 million and $1.0 million during the three three and nine months ended September 30,

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2012. These costs are recorded in general and administrative expenses in the accompanying condensed combined statements of income.

J. Christy Construction Inc., a subsidiary of Lion Oil, provided certain repairs, maintenance, and other contract services to us totaling \$0.7 million and \$1.3 million for the three and nine months ended September 30, 2012, which are recorded in operating expenses in the accompanying condensed combined statements of income.

We had revenues from Lion Oil related to the SALA Gathering and Lion Pipeline Systems totaling \$4.4 million and \$11.5 million during the three and nine months ended September 30, 2012. We had revenues from Lion Oil related to the Nashville terminal totaling \$0.2 million and \$0.6 million during the three and nine months ended September 30, 2012. Following the Offering, the Partnership has third party revenues regarding the SALA Gathering and Lion Pipeline Systems and the Nashville terminal. Historically, we participated in Lion Oil's centralized cash management program under which cash receipts and cash disbursements were processed through Lion Oil's cash accounts with a corresponding credit or charge to an affiliate account. The affiliate account is included in division equity. Following the Offering, the Partnership maintains separate cash accounts.

We entered into a service agreement with Delek effective October 1, 2006, which among other things, required Delek to pay service fees to us based on the number of gallons sold at the Tyler Refinery and a sharing of a portion of the marketing margin achieved in return for providing marketing, sales and customer services. Service fees income received from Delek for the three and nine months ended September 30, 2012 was \$2.8 million and \$9.2 million, respectively and is recorded in net sales in the accompanying condensed combined statements of income.

We and Delek had a service agreement, which among other things, required Delek to pay us throughput and storage fees based on the amount of the crude transported and/or stored. This fee equated to \$0.35 per barrel transported into the refinery, plus \$0.3 million per month for storage, or \$0.7 million, whichever was greater. Additionally, Delek paid us a quarterly fee of approximately \$0.2 million to compensate for the tax consequence resulting from the depreciation expense that was not incurred by us due to the accounting treatment of the acquisition of the pipeline assets. Total fees paid to us in conjunction with pipeline storage fees were \$3.7 million and \$8.5 million during the three and nine months ended September 30, 2012. Total fees paid to us related to tax depreciation were \$0.2 million and \$0.6 million during the three and nine months ended September 30, 2012 and are recorded as a reduction of general and administrative expenses in the accompanying condensed combined statements of income.

During the three and nine months ended September 30, 2012, Delek sold finished product to us in the amount of \$8.6 million and \$18.5 million, respectively. During the fourth quarter of 2011, we began selling bulk biofuels fuels primarily to Delek, which totaled \$59.4 million and \$161.6 million for the three and nine months ended September 30, 2012.

We recognized \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2012 in compensation expense related to stock-based compensation awards to related party employees for allocated related party services and an allocation of director and executive officer equity-based compensation.

14. Subsequent Events

Distribution Declaration

On October 25, 2013, our general partner's board of directors declared a quarterly cash distribution of 0.405 per unit, payable on November 14, 2013, to unitholders of record on November 7, 2013.

North Little Rock Acquisition

On October 24, 2013, we purchased a refined product terminal in Little Rock, Arkansas from Enterprise Refined Products Pipeline Company LLC. The aggregate purchase price was approximately \$5.0 million in cash, which has been preliminarily allocated to property, plant and equipment. The property, plant and equipment valuation is subject to change during the purchase price allocation period.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context otherwise requires, references in this report to "Delek Logistics Partners, LP Predecessor," the "DKL Predecessor," and "we," "our," "us" or like terms, when used in the context of periods prior to November 7, 2012, refer to Delek Logistics Partners, LP Predecessor, the Partnership's predecessor for accounting purposes. References to "Delek Logistics Partners, LP," the "Partnership," and "we," "our," "us," or like terms, when used in the present tense or in the context of periods on or after November 7, 2012, refer to Delek Logistics Partners, LP and its general partner and subsidiaries. Unless the context otherwise

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requires, references in this report to "Delek" refer collectively to Delek US Holdings, Inc. and any of its subsidiaries, other than Delek Logistics Partners, LP, its subsidiaries and its general partner. Those statements in this section that are not historical in nature should be deemed forward-looking statements that are inherently uncertain. See "Forward-Looking Statements" below for a discussion of the factors that could cause actual results to differ materially from those projected in these statements.

The information presented in this Quarterly Report on Form 10-Q contains the unaudited condensed combined financial results of the Predecessors for the three and nine months ended September 30, 2012. The DKL Predecessor includes the financial results of the initial assets acquired from Delek during the initial public offering (the "Offering"). The unaudited condensed consolidated financial results for the three and nine months ended September 30, 2013 include the results of operations of the Partnership.

On July 26, 2013, the Partnership completed the acquisition (the "Tyler Acquisition") of the refined products terminal (the "Tyler Terminal") and ninety-six storage tanks and ancillary assets (the "Tyler Tank Assets") adjacent to Delek's Tyler, Texas refinery (the "Tyler Refinery") from Delek. The Tyler Terminal, together with the Tyler Tank Assets, are sometimes hereinafter collectively referred to as the "Tyler Terminal and Tank Assets." The Tyler Acquisition was a transfer between entities under common control. Accordingly, the accompanying financial statements and related notes of the Predecessor and the Partnership have been retrospectively adjusted to include the historical results of the Tyler Terminal and Tank Assets for all periods presented through July 26, 2013, the date of the acquisition (the "Tyler Predecessor"). We refer to the historical results of the DKL Predecessor and the Tyler Predecessor collectively as our "Predecessors."

You should read the following discussion of our financial condition and results of operations in conjunction with our historical condensed consolidated financial statements and notes thereto.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning our possible future results of operations, business and growth strategies, financing plans, expectations that regulatory developments or other matters will not have a material adverse effect on our business or financial condition, our competitive position and the effects of competition, the projected growth of the industry in which we operate, and the benefits and synergies to be obtained from our completed and any future acquisitions, and statements of management’s goals and objectives, and other similar expressions concerning matters that are not historical facts. Words such as “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believe “appears,” “projects” and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking information is based on information available at the time and/or management’s good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Important factors that, individually or in the aggregate, could cause such differences include, but are not limited to:

- our substantial dependence on Delek and its ability to pay us under our commercial agreements;
- the timing and extent of changes in commodity prices and demand for Delek’s refined products;
- the suspension, reduction or termination of Delek's or any third-party's obligations under our commercial agreements;
- disruptions or losses or expenses due to acts of God, equipment interruption or failure at our facilities, Delek’s facilities or third-party facilities on which our business is dependent;
- our reliance on information technology systems in our day to day operations;
- changes in general economic conditions;
- competitive conditions in our industry;
- actions taken by our customers and competitors;
- the demand for crude oil, refined products and transportation and storage services;

- our ability to successfully implement our business plan;

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- our ability to complete internal growth projects on time and on budget;
- our growth may be limited by Delek's ability to grow as expected;
- operating hazards and other risks incidental to transporting, storing and gathering crude oil and refined products;
- natural disasters, weather-related delays, casualty losses and other matters beyond our control;
- interest rates;
- labor relations;
- large customer defaults;
- changes in the availability and cost of capital and the price and availability of debt and equity financing;
- changes in tax status;
- the effects of existing and future laws and governmental regulations, including but not limited to the rules and regulations promulgated by the Federal Energy Regulatory Commission (the "FERC");
- changes in insurance markets impacting costs and the level and types of coverage available;
- the effects of future litigation; and
- other factors discussed elsewhere in this report.

In light of these risks, uncertainties and assumptions, our actual results of operations and execution of our business strategy could differ materially from those expressed in, or implied by, the forward-looking statements, and you should not place undue reliance upon them. In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition.
Forward-looking statements speak only as of the date the statements are made. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements.

Overview

The Partnership owns and operates crude oil and refined products logistics and marketing assets. We gather, transport and store crude oil and market, distribute, transport and store refined products in select regions of the southeastern United States and Texas for Delek and third parties, primarily in support of Delek’s Tyler Refinery and El Dorado, Arkansas (the "El Dorado Refinery"). A substantial majority of our existing assets are both integral to and dependent on the success of Delek’s refining operations.

The Partnership is 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 its share of items of income, gain, loss and deduction in computing its federal and state income tax liabilities, regardless of whether cash distributions are made to the partner by the partnership. The taxable income reportable to each partner takes into account differences between the tax basis and the fair market value of our assets and financial reporting bases of assets and liabilities, the acquisition price of their units and the taxable income allocation requirements under the partnership agreement.

Our Reporting Segments and Assets

Our business consists of two operating segments: (i) our pipelines and transportation segment and (ii) our wholesale marketing and terminalling segment.

Our pipelines and transportation segment primarily consists of assets divided into six operating systems: (i) our Lion Pipeline System, (ii) our SALA Gathering System, (iii) our Paline Pipeline System, (iv) our East Texas Crude Logistics System (including the Nettleton Pipeline and McMurrey Pipeline System), (v) the Tyler-Big Sandy Pipeline (as hereinafter defined) and (vi) the Tyler

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Tank Assets. These assets provide crude oil gathering, crude oil and refined products transportation and storage services primarily 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.

Our wholesale marketing and terminalling segment consists primarily of the following assets: (i) refined products terminals in Abilene, Texas and San Angelo, Texas, which we lease to Noble Petro, Inc. (“Noble Petro”); (ii) product pipelines in west Texas connecting the Abilene, Texas and San Angelo, Texas terminals to the Magellan Orion pipeline, which we also lease to Noble Petro, (iii) refined products terminals in Big Sandy, Texas, Memphis, Tennessee, and Nashville, Tennessee and (iv) the Tyler Terminal. We generate revenue in our wholesale marketing and terminalling segment by providing marketing and terminalling services for the refined products output of the Tyler Refinery, engaging in wholesale activity at our Abilene, Texas 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 by providing terminalling services to independent third parties and Delek.

Recent Developments

Amended and Restated Credit Facility

We entered into a senior secured revolving credit agreement concurrent with the completion of the Offering on November 7, 2012, with Fifth Third Bank, as administrative agent, and a syndicate of lenders, which was amended and restated on July 9, 2013 (the "Amended and Restated Credit Agreement"). Under the terms of the Amended and Restated Credit Agreement, the lender commitments were increased from $175.0 million to $400.0 million and a dual currency borrowing tranche was added that permits draw downs in U.S. or Canadian dollars. The Amended and Restated Credit Agreement also contains an accordion feature whereby the Partnership can increase the size of the credit facility to an aggregate of $450.0 million, subject to receiving increased or new commitments from lenders and the satisfaction of certain other conditions precedent.

Borrowings denominated in U.S. dollars under the Amended and Restated Credit Agreement bear interest at either a U.S. dollar prime rate, plus an applicable margin, or a LIBOR rate, plus an applicable margin, at the election of the borrowers. Borrowings denominated in Canadian dollars under the Amended and Restated Credit Agreement bear interest at either a Canadian dollar prime rate, plus an applicable margin, or a CDOR (Canadian Dealer Offered Rate) rate, plus an applicable margin, at the election of the borrowers. The applicable margin in each case varies based upon the Partnership's most recently reported leverage ratio.

North Little Rock Acquisition
On October 24, 2013, we purchased a refined product terminal in Little Rock, Arkansas from Enterprise Refined Products Pipeline Company LLC. The aggregate purchase price was approximately $5.0 million, which has been preliminarily allocated to property, plant and equipment. The property, plant and equipment valuation is subject to change during the purchase price allocation period.

Hopewell Acquisition

On July 19, 2013, the Partnership purchased from Enterprise TE Products Pipeline Company LLC, a 13.5 mile pipeline (the "Hopewell Pipeline") that originates at the Tyler Refinery and terminates at the Hopewell Station, where it effectively connects to our 19-mile pipeline that originates at the Hopewell Station in Smith County, Texas and terminates at the Big Sandy Station in Big Sandy, Texas (the "Big Sandy Pipeline"). The Hopewell Pipeline and the Big Sandy Pipeline form essentially one pipeline link between the Tyler Refinery and our light petroleum products terminal located in Big Sandy, Texas (the "Big Sandy Terminal"), (the "Tyler-Big Sandy Pipeline"). The aggregate purchase price was approximately $5.7 million, which has been preliminarily allocated to property, plant and equipment. The property, plant and equipment valuation is subject to change during the purchase price allocation period.

Amended and Restated Services Agreement (Big Sandy Terminal and Pipeline). In connection with the acquisition of the Hopewell Pipeline, on July 25, 2013, the Partnership and Delek entered into the Amended and Restated Services Agreement (Big Sandy Terminal and Pipeline), which amended and restated the terminalling services agreement dated November 7, 2012 for the Big Sandy Terminal to, among other things, include a minimum throughput commitment and a per barrel throughput fee that Delek will pay us for throughput along the Tyler-Big Sandy Pipeline.

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Tyler Acquisition

On July 26, 2013, the Partnership completed the Tyler Acquisition and acquired the Tyler Terminal and Tank Assets. The purchase price paid for the assets acquired was $94.8 million in cash. The assets acquired consist of:

- The Tyler Terminal. The refined products terminal located at the Tyler Refinery, which consists of a truck loading rack with nine loading bays supplied by pipeline from storage tanks, also owned by the Partnership, located adjacent to the Tyler Refinery, along with certain ancillary assets. Total throughput capacity for the terminal is approximately 72,000 barrels per day ("bpd").
- The Tyler Tank Assets. Ninety-six storage tanks and certain ancillary assets (such as tank pumps and piping) located adjacent to the Tyler Refinery with an aggregate shell capacity of approximately 2.0 million barrels.

In connection with the Tyler Acquisition, the Partnership and Delek entered into, amended or terminated, as applicable, the following material definitive agreements effective as of July 26, 2013.

Tyler Throughput and Tankage Agreement. Under the throughput and tankage agreement, we provide Delek with throughput and storage services at the Tyler Terminal and Tank Assets in return for throughput and storage fees. The initial term of the throughput and tankage agreement is eight years and Delek, at its sole option, may extend the term for two renewal terms of four years each.

Amended and Restated Omnibus Agreement. The Partnership entered into an Amended and Restated Omnibus Agreement (the "Restated Omnibus Agreement") with Delek, which amended and restated the omnibus agreement entered into in connection with the Offering by and among the parties and includes the following changes, among others: (i) certain modifications in the reimbursement by Delek and certain of its subsidiaries for certain operating expenses and capital expenditures incurred by the Partnership or its subsidiaries, (ii) certain modifications of the indemnification provisions in favor of the Partnership with respect to certain environmental matters, and (iii) the increase of the annual administrative fee payable by us to Delek for corporate general and administrative services.

Tyler Lease and Access Agreement. Under the lease and access agreement, we will lease from Delek the real property on which the Tyler Terminal and Tank Assets are located. The lease and access agreement has an initial term of 50 years with automatic renewal for a maximum of four successive 10-year period thereafter.

Tyler Site Services Agreement. Under the site services agreement, Delek will provide us with shared use of certain services, materials and facilities that are necessary to operate and maintain the Tyler Terminal and Tank Assets as operated and maintained prior to the Tyler Acquisition. The term of the site services agreement is the same as the lease and access agreement discussed above.

Operation and Management Services Agreement. In connection with the Tyler Acquisition, the Partnership, our general partner and Delek terminated the operation and management services agreement entered into in connection with the Offering. We will continue to reimburse our general partner for services it provides to us, pursuant to the terms of the partnership agreement.

How We Generate Revenue

The Partnership generates revenue by charging fees for gathering, transporting and storing crude oil and for marketing, distributing, transporting and storing refined products. A substantial majority of our contribution margin, which we define as net sales less cost of goods sold and operating expenses, is derived from commercial agreements with Delek with initial terms ranging from five to ten years, which we believe enhances the stability of our cash flows. As more fully described below, our commercial agreements with Delek include minimum volume commitments, which we believe will provide a stable revenue stream in the future.

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

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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.
We also entered into several new agreements with Delek as part of the Tyler Acquisition on July 26, 2013. See "Recent Developments—Tyler Terminal and Tank Assets Acquisition" for more information.
Pipelines and Transportation
Lion Pipeline and SALA Gathering Systems. We entered into a pipelines and storage facilities agreement with Delek under which we provide transportation and storage services 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." Under this 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 $0.89 per barrel, which tariff runs through June 30, 2014. 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 $0.104 per barrel, which tariff runs through June 30, 2014. Tariff rates are subject to increase or decrease on July 1 of each year, by the amount of any change in the FERC oil pipeline index.
- 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 $2.35 per barrel, which tariff runs through June 30, 2014. 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. Tariff rates are subject to increase or decrease on July 1 of each year, by the amount of any change in the FERC oil pipeline index.

East Texas Crude Logistics System. We entered into a pipelines and tankage agreement with Delek pursuant to which we provide crude oil transportation and storage services for the Tyler Refinery. 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 $0.42 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 $0.22 per barrel. In addition, Delek pays a storage fee of $261,480 per month for the use of our crude oil storage tanks along our East Texas Crude Logistics system. The fees paid to us are subject to increase or decrease on July 1 of each year.
The East Texas Crude Logistics System is comprised of the Nettleton and McMurrey Pipelines. The Nettleton Pipeline is used to transport crude oil from our tank farms in and around Nettleton, Texas to the Bullard Junction at the Tyler Refinery. The McMurrey Pipeline also begins at our tank farms in and around Nettleton, Texas and then runs roughly parallel to the Nettleton Pipeline. In April 2013, a reconfigured pipeline system that is owned and operated by third parties began 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. As a result, the crude oil supplied through the Nettleton and McMurrey Pipelines fell below the minimum aggregate throughput requirements during the second quarter of 2013 and remained below the minimum aggregate throughput requirements through the three months ended September 30, 2013. Going forward, crude oil volumes transported on our East Texas Crude Logistics System will decrease from approximately 55,000 bpd to approximately 12,000 bpd or less. 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. 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.
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. Under the marketing agreement, Delek is obligated to make available to us for marketing and sale at the Tyler Terminal 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 $0.6065 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. Fees are subject to increase or decrease on July 1 of each year, by the amount of any change in the consumer price index.

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Terminalling. We entered into two five-year terminalling services agreements pursuant to which Delek pays us fees for providing terminalling and other services to Delek at our Memphis and Big Sandy Terminals, as well as for storing product at our Big Sandy Terminal. The minimum throughput commitment 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 $0.52 per barrel. The fees paid to us are subject to increase or decrease on July 1 of each year.

The Big Sandy Terminal is currently not operational because the Hopewell Pipeline, which is necessary for the use of the terminal, is currently out of service. Although the terminal was not operational, Delek paid 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 $52,250 per month, the minimum payment due per the agreement during the quarter ended September 30, 2013. We expect the Big Sandy Terminal to be operational in the fourth quarter 2013.

On July 19, 2013, we acquired the Hopewell Pipeline. In connection with the acquisition, on July 25, 2013, we and Delek entered into the Amended and Restated Services Agreement (Big Sandy Terminal and Pipeline), which amended and restated the terminalling services agreement for the Big Sandy Terminal originally entered into in connection with the Offering. Under the Amended and Restated Services Agreement (Big Sandy Terminal and Pipeline), Delek is obligated to throughput a minimum aggregate volume of at least 5,000 bpd through the pipeline, calculated on a quarterly average basis, and must pay a transportation fee of $0.52 per barrel to us for volumes shipped on the pipeline in addition to its terminal throughput obligations described above.

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

Pursuant to a supply and offtake arrangement with Delek and Lion Oil Company ("Lion Oil") to which we are not a party, J. Aron & Company ("J. Aron") acquires and holds title to all crude oil and refined products transported on our Lion Pipeline System and SALA Gathering System. J. Aron is therefore considered the shipper on the Lion Pipeline System and the SALA Gathering System. J. 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 J. Lion Oil relating to the Memphis terminal, Lion Oil has assigned to J. Aron certain of its rights, including the right to have J. 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 J. Aron's agent for scheduling purposes. Accordingly, even though this is effectively a financing arrangement for Delek and J. Aron sells the product back to Delek, J. Aron is technically our primary customer under each of these agreements. J. 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 J. Aron will pay us for the transportation and storage services we provide to it. The rights assigned to J. 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 J. 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 System, a major integrated oil company contracted with the prior owner of the Paline Pipeline System 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. In connection with our acquisition of the Paline Pipeline System, we assumed this agreement. 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 was required to make only payments of $229,000 per month for this capacity until the final segment of the reversal of the Paline Pipeline System was completed and we entered 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. However, the connection agreement was fully executed in April 2013, even though our customer had not yet completed the work on its tanks. Because we completed our necessary work, we believe we were owed the full payment under the contract beginning in November 2012 but our customer paid only $229,000 per month in 2012 and during the first quarter 2013. Pursuant to our omnibus agreement with Delek (described above), Delek indemnified 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 if such failure is attributable to these conditions not being satisfied. Therefore, beginning in the second quarter 2013 and going forward we received the minimum amount payable of $529,250 per month under the contract as well as fees associated with throughput on volumes in excess of 30,000 bpd.

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 Asset Services, L.P. ("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 has entered into the following agreements with Delek:

Omnibus Agreement. The Partnership entered into an omnibus agreement with Delek upon the completion of the Offering. Pursuant to the terms of the omnibus agreement, among other things, the omnibus agreement 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 during 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 sign the connection agreement described below under "Other Agreements."

Delek 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 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.

On July 26, 2013, in connection with the Tyler Acquisition, the Partnership entered into an amendment and restatement to the omnibus agreement with Delek. The amendment and restatement includes the following, among others: (i) certain modifications in the reimbursement by Delek and certain of its subsidiaries for certain operating expenses and capital expenditures incurred by the Partnership or its subsidiaries, (ii) certain modifications of the indemnification provisions in favor of the Partnership with respect to certain environmental matters, and (iii) the increase of the annual administrative fee payable by us to Delek for corporate general and administrative services.

The amendment and restatement also increased the annual administrative fee payable by the Partnership to Delek for corporate general and administrative services that Delek and its affiliates provide under the omnibus agreement, from $2.7 million to $3.0 million, prorated and payable monthly. We paid Delek approximately $1.0 million and $2.8

million during both the three and nine months ended September 30, 2013, respectively, pursuant to this agreement. Delek paid us approximately $0.9 million pursuant to this agreement during the three months ended March 31, 2013 as indemnification relative to the Paline Pipeline System. No indemnification fees with respect to the Paline Pipeline System were paid to us during the three months ended September 30, 2013.

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

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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.

On July 26, 2013, in connection with the Tyler Acquisition, the Operation and Management Services Agreement was terminated. We will continue to reimburse our general partner for services it provides to us pursuant to the terms of our partnership agreement. See "Recent Developments—Tyler Terminal and Tankage Acquisition."

How We Evaluate Our Operations

We use a variety of financial and operating metrics to analyze our segment performance. These metrics are significant factors in assessing our operating results and profitability and include: (i) volumes (including pipeline throughput and terminal throughput and storage and sales volumes); (ii) contribution margin and gross margin per barrel; (iii) operating and maintenance expenses; and (iv) EBITDA and Distributable Cash Flow. We define EBITDA and Distributable Cash Flow below.

Volumes. The amount of revenue we generate primarily depends on the volumes of crude oil and refined products that we handle or sell, as the case may be, in our pipeline, transportation, terminalling and marketing operations. These volumes are primarily affected by the supply of and demand for crude oil and refined products in the markets served directly or indirectly by us or our assets. Although Delek has committed to minimum volumes under the commercial agreements described above, our results of operations will be impacted by:

- Delek’s utilization of our assets in excess of its minimum volume commitments;
- our ability to identify and execute acquisitions and organic expansion projects, and capture incremental Delek or third-party volumes;
- our ability to increase throughput volumes or sales at our refined products terminals and provide additional ancillary services at those terminals, such as ethanol blending and additives injection;
- our ability to identify and serve new customers in our marketing operations; and
- our ability to make connections to third-party facilities and pipelines.

Contribution Margin and Gross Margin per Barrel. Because we do not allocate general and administrative expenses by segment, we measure the performance of our segments by the amount of contribution margin generated in operations. Contribution margin is calculated as net sales less cost of sales and operating expenses. For our wholesale marketing and terminalling segment, we also measure gross margin per barrel. The gross margin per barrel reflects the gross margin (net sales less cost of sales) of the wholesale marketing operations divided by the number of barrels of refined products sold during the measurement period. Both contribution margin and gross margin per barrel can be affected by fluctuations in the prices of gasoline, distillate fuel and Renewable Identification Numbers ("RINs"). Historically, the profitability of our wholesale marketing operations has been affected by commodity price volatility, specifically as it relates to changes in the price of refined products between the time we purchase these products from our suppliers and the time we sell these products to our wholesale customers and the fluctuation in the value of RINs.

Operating and Maintenance Expenses. We seek to maximize the profitability of our operations by effectively managing operating and maintenance expenses. These expenses are comprised primarily of labor expenses, lease costs, utility costs, insurance premiums, repairs and maintenance expenses and property taxes. These expenses generally remain relatively stable across broad ranges of throughput volumes but can fluctuate from period to period depending on the mix of activities performed during that period and the timing of these expenses. We will seek to manage our maintenance expenditures on our pipelines and terminals by scheduling maintenance over time to avoid significant variability in our maintenance expenditures and minimize their impact on our cash flow.

Our operating and maintenance expenses will also be affected by the imbalance gain and loss provisions in our commercial agreements with Delek. Under our commercial agreements with Delek relating to our Lion Pipeline System and our East Texas Crude Logistics System, we bear any crude oil and refined product volume losses on each of our pipelines in excess of 0.25%. Under our commercial agreements with Delek relating to our Memphis and Big

Sandy Terminals, we will bear any refined product volume losses in each of our terminals in excess of 0.25%. The value of any crude oil or refined product imbalance gains or losses resulting from these contractual provisions is determined by reference to the monthly average reference price for the applicable commodity. Any gains and losses under these provisions will reduce or increase, respectively, our operating and maintenance expenses in the period in which they are realized.

EBITDA and Distributable Cash Flow. We define EBITDA as net income (loss) before net interest expense, income tax expense, depreciation and amortization expense. We define distributable cash flow as EBITDA less net cash paid for interest, maintenance and regulatory capital expenditures and income taxes. Distributable cash flow will not reflect changes in working capital balances. Distributable cash flow and EBITDA are not presentations made in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

EBITDA and distributable cash flow are non-U.S. GAAP supplemental financial measures that management and external users of our condensed consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, may use to assess:

- our operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to historical cost basis or, in the case of EBITDA, financing methods;
- the ability of our assets to generate sufficient cash flow to make distributions to our unitholders;
- ability to incur and service debt and fund capital expenditures; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities.

We believe that the presentation of EBITDA and distributable cash flow provides useful information to investors in assessing our financial condition and results of operations. EBITDA and distributable cash flow should not be considered alternatives to net income, operating income, cash from operations or any other measure of financial performance or liquidity presented in accordance with U.S. GAAP. EBITDA and distributable cash flow have important limitations as analytical tools because they exclude some but not all items that affect net income and net cash provided by operating activities. Additionally, because EBITDA and distributable cash flow may be defined differently by other companies in our industry, our definition of EBITDA may not be comparable to similarly titled measures of other companies, thereby diminishing its utility. For a reconciliation of EBITDA to its most directly comparable financial measures calculated and presented in accordance with U.S. GAAP, please refer to "Results of Operations—Statement of Operations Data" below.

Factors Affecting the Comparability of Our Financial Results

Our future results of operations may not be comparable to our historical results of operations for the reasons described below:

Revenues. There are differences between the way the Predecessors recorded revenues and the way the Partnership records revenues after the completion of the Offering and any subsequent acquisitions. Because our assets, including the Tyler Terminal and Tank Assets, were historically a part of the integrated operations of Delek, the Predecessors generally recognized the costs and most revenue associated with the gathering, pipeline, transportation, terminalling and storage services provided to Delek on an intercompany basis or charged low throughput fees for transportation. Accordingly, the revenues in our historical Predecessors condensed consolidated financial statements are different than those reflected in the Partnership's condensed consolidated financial statements as the Predecessors' amounts relate primarily to amounts received from third parties while the Partnership's revenues will reflect amounts associated with our commercial agreements with Delek in addition to amounts received from third parties.

The Partnership's revenues are generated from the commercial agreements that we entered into with Delek at the completion of the Offering, subsequent to the Offering and from existing agreements with third parties under which we receive fees for gathering, transporting and storing crude oil and marketing, transporting, storing and terminalling refined products. Certain of these contracts contain minimum volume commitments and fees that are indexed for inflation. In addition, the tariff rates for our assets that are subject to FERC regulation will be adjusted annually on July 1 of each year in accordance with FERC's indexing methodology. We expect to generate revenue from ancillary services such as ethanol blending and additive injection and from transportation and terminalling fees on our pipeline systems and terminals for volumes in excess of minimum volume committed under our agreements with Delek. In contrast to the Predecessors, the Partnership does not make bulk biofuel sales in our west Texas marketing operations.

General and Administrative Expenses. The Predecessor's general and administrative expenses included direct monthly charges for the management and operation of our logistics assets and certain expenses allocated by Delek for general corporate services, such as treasury, accounting and legal services. These expenses were charged or allocated to the Predecessors based on the nature of the expenses and our proportionate share of employee time and headcount. Delek continues to charge the Partnership for the management and operation of our logistics assets including an annual fee of $2.7 million for the provision of various centralized corporate services. Additionally, the Partnership will reimburse Delek for direct or allocated costs and expenses incurred by Delek on behalf of the Partnership. The Partnership also expects to incur $2.0 million of incremental annual general and administrative expense as a result of being a publicly traded partnership.

Financing. As a publicly traded partnership, the Partnership has declared its intent to make a cash distribution to its unit holders at a distribution rate of 0.405 per unit for the quarter ended September 30, 2013 (1.62 per unit on an annualized basis). Our partnership agreement requires that the Partnership distribute to its unitholders quarterly all of its available cash as defined in the partnership agreement. As a result, the Partnership expects to fund future capital expenditures primarily from operating cash flows, from borrowings under the Amended and Restated Credit Facility and future issuances of equity and debt securities.

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Income Tax Expenses. Prior to the Offering, the DKL Predecessor was included in Delek's consolidated federal income tax return, in which the DKL Predecessor was taxed at the entity level as a C corporation. The Partnership is treated as a partnership for federal income tax purposes, with each partner being separately taxed on its share of taxable income; therefore, there is no federal income tax expense in our financial statements.

Market Trends. Our results of operations are impacted by our ability to utilize our existing assets to fulfill the long-term fee-based agreements we have entered into with Delek and with third parties. Overall demand for gathering and terminalling services in a particular area is generally driven by crude oil production in the area, refining economics and access to alternate delivery and transportation infrastructure. Any of these factors is subject to change over time. As part of our overall business strategy, management considers aspects such as location, acquisition and expansion opportunities and factors impacting the utilization of the refineries and therefore throughputs volumes which may impact our performance in the market.

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. Demand for asphalt products, which is a substantial product of the El Dorado Refinery, is also 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 believe, however, 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.

Critical Accounting Policies

The preparation of our condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Securities and Exchange Commission (the "SEC") has defined critical accounting policies as those that are both most important to the portrayal of our financial condition and results of operations and require our most difficult, complex or subjective judgments or estimates. Based on this definition and as further described in our Annual Report on Form 10-K for the year ended December 31, 2012, we believe our critical accounting polices include the following: (i) evaluating impairment for property, plant and equipment and definite life intangibles, (ii) valuing goodwill and potential impairment, and (iii) estimating environmental expenditures. For all financial statement periods presented, there have been no material modifications to the application of these critical accounting policies or estimates since our most recently filed Annual Report on Form 10-K.

Magnolia Station Crude Oil Release

On March 9, 2013, a release of crude oil was detected within a pumping facility at our Magnolia Station located west of the El Dorado Refinery. The pumping facility is owned by our subsidiary SALA Gathering Systems, LLC. Since detecting the release we have worked to contain the release, recover the released crude oil and remediate those areas impacted by the release, coordinating our efforts with the U.S. Environmental Protection Agency and state authorities to restore the impacted area to the satisfaction of the appropriate regulatory authorities. As of the date of this filing, we believe we have completed all necessary remediation, restoration and monitoring of the areas affected by the crude oil release, although there are on-going discussions with the Arkansas Department of Environmental Quality regarding whether additional monitoring or remediation of soil may be necessary. The release did not impact the delivery of crude oil from the Magnolia Station to the El Dorado Refinery and did not interrupt the operations of the El Dorado Pipeline connected to the Magnolia Station.

We believe the total costs and liabilities associated with this event are immaterial to our operations and financial results as Delek is required, pursuant to the terms of the omnibus agreement (as described in Note 13—Related Party Transactions), to pay to us any costs in excess of $0.25 million with respect to this event that we incur as a result of the failure at the pumping facility.

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Results of Operations

A discussion and analysis of the factors contributing to our results of operations is presented below. The accompanying condensed combined financial statements for the three and nine months ended September 30, 2012, represent our Predecessors' results of operations, while the condensed consolidated financial statements for the three and nine months ended September 30, 2013, represent the results of operations for the Partnership. The accompanying financial statements and related notes of the DKL Predecessor and the Partnership have been retrospectively adjusted to include the historical results of the Tyler Terminal and Tank Assets for all periods presented through July 26, 2013. The financial statements, together with the following information, are intended to provide investors with a reasonable basis for assessing our historical operations, but should not serve as the only criteria for predicting our future performance.

The following table and discussion is a summary of our consolidated results of operations for the three and nine months ended September 30, 2013 and 2012.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013[1]	2012[1] Predecessors	2013 [1]	2012[1] Predecessors
Statement of Operations Data:	(In thousands)			
Net sales:				
Pipelines and transportation	$15,743	$7,960	$43,008	$21,440
Wholesale marketing and terminalling	227,552	263,846	641,323	751,929
Total	243,295	271,806	684,331	773,369
Operating costs and expenses:				
Cost of goods sold	218,222	255,281	614,048	729,750
Operating expenses	7,474	9,540	23,075	20,637
General and administrative expenses	1,868	1,804	5,172	6,937
Depreciation and amortization	2,844	2,616	9,074	7,720
Loss on sale of assets	—	5	—	5
Total operating costs and expenses	230,408	269,246	651,369	765,049
Operating income	12,887	2,560	32,962	8,320
Interest expense	1,194	667	2,763	1,777
Income before taxes	11,693	1,893	30,199	6,543
Income tax expense	307	2,437	547	5,183
Net income (loss)	$11,386	$(544)	$29,652	$1,360
Less: (loss) income attributable to Predecessors	(1,159)	(544)	(6,853)	1,360
Net income attributable to partners	$12,545	$—	$36,505	$—
Comprehensive income attributable to partners	$12,545	$—	$36,505	$—
EBITDA[2]	$15,731	$5,176	$42,036	$16,040
Less: General partner's interest in net income (2%)	$250		$729	
Limited partners' interest in net income	$12,295		$35,776	
Net income per limited partner unit:				
Common units - (basic)	$0.51		$1.49	
Common units - (diluted)	$0.51		$1.48	
Subordinated units - Delek (basic and diluted)	$0.51		$1.49	
Weighted average limited partner units outstanding:				
Common units - (basic)	12,036,821		12,014,445	
Common units - (diluted)	12,188,342		12,152,657	
Subordinated units - Delek (basic and diluted)	11,999,258		11,999,258	
Distributable Cash Flow [2]	$12,768		$34,468	

[1] The information presented includes the results of operations of our Predecessors. Prior to the completion of the Offering and the Tyler Acquisition, our Predecessors did not record all revenues for intercompany gathering, pipeline transportation, terminalling and storage services.

[2] For a definition of EBITDA and distributable cash flow, please read "How We Evaluate Our Operations—EBITDA and Distributable Cash Flow" above.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013(1)	2012(1) Predecessors	2013 (1)	2012(1) Predecessors
	(In thousands)			
Reconciliation of EBITDA to net income (loss):				
Net income (loss)	$11,386	$(544)	$29,652	$1,360
Add:				
Income tax expense	307	2,437	547	5,183
Depreciation and amortization	2,844	2,616	9,074	7,720
Interest expense, net	1,194	667	2,763	1,777
EBITDA(2)	$15,731	$5,176	$42,036	$16,040
Reconciliation of EBITDA to net cash from operating activities:				
Net cash provided by (used in) operating activities	$18,998	$(5,634)	$35,484	$(4,532)
Amortization of unfavorable contract liability to revenue	622	—	1,956	—
Amortization of debt issuance costs	(187)	(52)	(560)	(146)
Accretion of asset retirement obligations	(18)	(26)	(163)	(79)
Deferred taxes	(59)	127	(42)	135
Loss on sale of assets	—	(5)	—	(5)
Unit-based compensation expense	(67)	(39)	(179)	(92)
Changes in assets and liabilities	(5,059)	7,701	2,230	13,799
Income taxes	307	2,437	547	5,183
Interest expense, net	1,194	667	2,763	1,777
EBITDA(2)	$15,731	$5,176	$42,036	$16,040
Reconciliation of distributable cash flow to EBITDA:				
EBITDA (2)	$15,731	$—	$42,036	$—
Less: Cash interest expense, net (3)	1,008	—	2,203	—
Less: Maintenance and Regulatory capital expenditures (4)	924	—	2,716	—
Less: Capital improvement expenditures (5)	93	—	630	—
Add: Reimbursement from Delek for capital expenditures (5)	—	—	463	—
Less: Income tax expense	307	—	547	—
Add: Non-cash unit based compensation expense	68	—	175	—
Less: Amortization of deferred revenue	77		154	
Less: Amortization of unfavorable contract liability	622	—	1,956	—
Distributable cash flow (2)	$12,768	$—	$34,468	$—

(1) The information presented includes the results of operations of our Predecessors. Prior to the completion of the Offering and the Tyler Acquisition, our Predecessors did not record all revenues for intercompany gathering, pipeline transportation, terminalling and storage services.

(2) For a definition of EBITDA and distributable cash flow, please read "How We Evaluate Our Operations - EBITDA and Distributable Cash Flow" above.

(3) Cash interest expense, net excludes the amortization of debt issuance costs.

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(4) Maintenance and regulatory capital expenditures represent cash expenditures (including expenditures for the addition or improvement to, or the replacement of, our capital assets, and for the acquisition of existing, or the construction or development of new, capital assets) made to maintain our long-term operating income or operating capacity. Examples of maintenance and regulatory capital expenditures are expenditures for the repair, refurbishment and replacement of pipelines and terminals, to maintain equipment reliability, integrity and safety and to address environmental laws and regulations.

(5) For the three and nine months periods ended September 30, 2013, Delek reimbursed us for certain capital expenditures pursuant to the terms of the omnibus agreement.

The following tables include reconciliations of EBITDA and distributable cash flow to net income and EBITDA to net cash from operating activities for the three months ended September 30, 2013 and 2012, disaggregated to present the results of operations of the Partnership and the Tyler Terminal and Tank Assets through July 26, 2013 (in thousands):

	Delek Logistics Partners	Tyler Terminal and Tank Assets Tyler Predecessor	Three Months Ended September 30, 2013
Reconciliation of EBITDA to net (loss) income:			
Net income (loss)	$12,545	$(1,159)	$11,386
Add:			
Income tax expense	307	—	307
Depreciation and amortization	2,600	244	2,844
Interest expense, net	1,194	—	1,194
EBITDA(2)	$16,646	$(915)	$15,731
Reconciliation of EBITDA to net cash from operating activities:			
Net cash provided by operating activities	$18,090	$908	$18,998
Amortization of unfavorable contract liability to revenue	622	—	622
Amortization of debt issuance costs	(187)	—	(187)
Accretion of asset retirement obligations	(18)	—	(18)
Deferred taxes	(59)	—	(59)
Stock-based compensation expense	(67)	—	(67)
Changes in assets and liabilities	(5,059)	(1)	(5,060)
Income taxes	307	—	307
Interest expense, net	1,194	—	1,194
EBITDA(2)	$14,823	$907	$15,730
Reconciliation of distributable cash flow to EBITDA:			
EBITDA (2)	$16,646	$(915)	$15,731
Less: Cash interest expense, net (3)	1,008	—	1,008
Less: Maintenance and Regulatory capital expenditures (4)	697	227	924
Less: Capital improvement expenditures (5)	27	66	93
Less: Income tax expense	307	—	307
Add: Non-cash unit based compensation expense	68	—	68
Less: Amortization of deferred revenue	77	—	77

Less: Amortization of unfavorable contract liability	622	—	622
Distributable cash flow (2)	$13,976	$(1,208)	$12,768

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	Delek Logistics Partners	Tyler Terminal and Tank Assets Tyler Predecessor	Three Months Ended September 30, 2012
Reconciliation of EBITDA to net (loss) income:			
Net income (loss)	$2,968	$(3,512)	$(544)
Add:			
Income tax expense	2,437	—	2,437
Depreciation and amortization	2,255	361	2,616
Interest expense, net	667	—	667
EBITDA(2)	$8,327	$(3,151)	$5,176
Reconciliation of EBITDA to net cash from operating activities:			
Net cash used in operating activities	$(2,486)	$(3,148)	$(5,634)
Amortization of debt issuance costs	(52)	—	(52)
Accretion of asset retirement obligations	(26)	—	(26)
Deferred taxes	127	—	127
Loss on sale of assets	(5)	—	(5)
Stock-based compensation expense	(39)	—	(39)
Changes in assets and liabilities	7,698	3	7,701
Income taxes	2,437	—	2,437
Interest expense, net	667	—	667
EBITDA(2)	$8,321	$(3,145)	$5,176

	Nine Months Ended September 30,	
	2013	2012 Predecessors
Cash Flow Data:	(In thousands)	
Cash flows provided by (used in) operating activities	$35,484	$(4,532)
Cash flows used in investing activities	(13,603)	(39,970)
Cash flows (used in) provided by financing activities	(38,621)	44,680
Net (decrease) increase in cash and cash equivalents	$(16,740)	$178

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Segment Data:

	Three Months Ended September 30, 2013		
(In thousands)	Pipelines and Transportation	Wholesale Marketing and Terminalling	Consolidated
Net sales	$15,743	$227,552	$243,295
Operating costs and expenses:			
Cost of goods sold	—	218,222	218,222
Operating expenses	5,660	1,814	7,474
Segment contribution margin	$10,083	$7,516	17,599
General and administrative expenses			1,868
Depreciation and amortization			2,844
Operating income			$12,887
Total assets	$164,963	$122,415	$287,378
Capital spending (excluding business combinations) [1]	1,065	517	$1,582

[1] Capital spending includes expenditures incurred in connection with the assets acquired in the Tyler Acquisition.

	Three Months Ended September 30, 2012 [1]		
	Predecessors		
(In thousands)	Pipelines and Transportation	Wholesale Marketing and Terminalling	Combined
Net sales	$7,960	$263,846	$271,806
Operating costs and expenses:			
Cost of goods sold	—	255,281	255,281
Operating expenses	7,241	2,299	9,540
Segment contribution margin	$719	$6,266	6,985
General and administrative expenses			1,804
Depreciation and amortization			2,616
Loss on sale of assets			5
Operating income			$2,560
Total assets	$145,380	$139,446	$284,826
Capital spending (excluding business combinations) [2]	$5,064	$324	$5,388

[1] The information presented includes the results of operations of our Predecessors. Prior to the completion of the Offering and the Tyler Acquisition, our Predecessors did not record all revenues for intercompany gathering, pipeline transportation, terminalling and storage services.

[2] Capital spending includes expenditures incurred in connection with the assets acquired in the Tyler Acquisition.

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(In thousands)	Nine Months Ended September 30, 2013 Pipelines and Transportation	Wholesale Marketing and Terminalling	Consolidated
Net sales	$43,008	$641,323	$684,331
Operating costs and expenses:			
Cost of goods sold	—	614,048	614,048
Operating expenses	18,193	4,882	23,075
Segment contribution margin	$24,815	$22,393	47,208
General and administrative expenses			5,172
Depreciation and amortization			9,074
Operating income			$32,962
Capital spending (excluding business combinations) (1)	6,513	1,368	$7,881

(1) Capital spending includes expenditures incurred in connection with the assets acquired in the Tyler Acquisition.

(In thousands)	Nine Months Ended September 30, 2012 (1) Predecessors Pipelines and Transportation	Wholesale Marketing and Terminalling	Combined
Net sales	$21,440	$751,929	$773,369
Operating costs and expenses:			
Cost of goods sold	—	729,750	729,750
Operating expenses	16,149	4,488	20,637
Segment contribution margin	$5,291	$17,691	22,982
General and administrative expenses			6,937
Depreciation and amortization			7,720
Loss on sale of assets			5
Operating income			$8,320
Capital spending (excluding business combinations) (2)	$15,400	$1,300	$16,700

(1) The information presented includes the results of operations of our Predecessors. Prior to the completion of the Offering and the Tyler Acquisition, our Predecessors did not record all revenues for intercompany gathering, pipeline transportation, terminalling and storage services.

(2) Capital spending includes expenditures incurred in connection with the assets acquired in the Tyler Acquisition.

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Consolidated Results of Operations — Comparison of the Three Months Ended September 30, 2013 versus the Three Months Ended September 30, 2012

Contribution margin for the third quarter 2013 was $17.6 million compared to $7.0 million for the third quarter 2012, an increase of $10.6 million, or 152.0%. The increase in contribution margin was primarily attributable to increases in net sales in our pipelines and transportation segment during the third quarter 2013 compared to the third quarter 2012. Revenue on our pipeline assets is generated by charging fees for services including gathering, transporting and storing crude oil. Cost of goods sold is therefore not incurred on these assets, resulting in inherently higher margins. Also contributing to the increase is the effect of the commercial agreements we entered into with Delek in connection with the Offering, which reflect higher rates for crude oil gathering, crude oil and refined products transportation and storage services as compared to the rates charged prior to the execution of the commercial agreements. Additionally, the new terminalling and site services agreements that went into effect in connection with the acquisition of the Tyler Terminal and Tank Assets contributed to the increase in contribution margin.

For the third quarters of 2013 and 2012, we generated net sales of $243.3 million and $271.8 million, respectively, a decrease of $28.5 million, or 10.5%. In the fourth quarter 2011, we began selling bulk biofuels, primarily to Delek. The Partnership discontinued the sale of bulk biofuels following the Offering, contributing to the decrease in net sales in the third quarter 2013 compared to the third quarter 2012. Also contributing to the decrease was a $0.12 per gallon decrease in the average sales price per gallon of gasoline for the third quarter 2013, to $2.79 per gallon from $2.91 per gallon in the third quarter 2012. These decreases were partially offset by increases in volumes across most of our operating systems. The decrease was also partially offset by the effect of the new terminalling and site services agreements that went into effect in connection with the acquisition of the Tyler Terminal and Tank Assets. The new terminalling and site services agreements contributed $3.3 million to net sales in the third quarter 2013.

Cost of goods sold was $218.2 million for the