Delek Logistics Partners, LP
Form 10-Q
November 09, 2018

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dkl:FirstTargetDistributionMember us-gaap:GeneralPartnerMember 2018-01-01 2018-09-30 0001552797
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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, 2018

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 every Interactive Data File required to be submitted 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 2, 2018, there were 24,395,183 common limited partner units and 497,861 general partner units outstanding.

Delek Logistics Partners, LP

Quarterly Report on Form 10-Q
For the Quarterly Period Ended September 30, 2018

Financial Statements

Part I - FINANCIAL INFORMATION
Item 1. Financial Statements
Delek Logistics Partners, LP
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except unit and per unit data)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$19,006	$4,675
Accounts receivable	21,815	23,013
Accounts receivable from related parties	51,235	1,124
Inventory	4,198	20,855
Other current assets	418	783
Total current assets	96,672	50,450
Property, plant and equipment:		
Property, plant and equipment	448,722	367,179
Less: accumulated depreciation	(134,052)	(112,111)
Property, plant and equipment, net	314,670	255,068
Equity method investments	105,233	106,465
Goodwill	12,203	12,203
Intangible assets, net	155,840	15,917
Other non-current assets	8,951	3,427
Total assets	$693,569	$443,530
LIABILITIES AND DEFICIT		
Current liabilities:		
Accounts payable	$11,513	$19,147
Excise and other taxes payable	2,849	4,700
Tank inspection liabilities	902	902
Pipeline release liabilities	1,019	1,000
Accrued expenses and other current liabilities	9,953	6,033
Total current liabilities	26,236	31,782
Non-current liabilities:		
Long-term debt	776,684	422,649
Asset retirement obligations	5,099	4,064
Other non-current liabilities	15,977	14,260
Total non-current liabilities	797,760	440,973
Deficit:		
Common unitholders - public; 9,101,137 units issued and outstanding at September 30, 2018 (9,088,587 at December 31, 2017)	172,875	174,378
Common unitholders - Delek; 15,294,046 units issued and outstanding at September 30, 2018 (15,294,046 at December 31, 2017)	(296,427)	(197,206)
General partner - 497,861 units issued and outstanding at September 30, 2018 (497,604 at December 31, 2017)	(6,875)	(6,397)
Total deficit	(130,427)	(29,225)
Total liabilities and deficit	$693,569	$443,530

See accompanying notes to the condensed consolidated financial statements

Delek Logistics Partners, LP

Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)
(in thousands, except unit and per unit data)

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2018	**2017**	**2018**	**2017**
Net revenues:				
Affiliates	$63,835	$ 40,131	$178,559	$116,574
Third party	100,275	90,495	319,752	270,294
Net revenues	164,110	130,626	498,311	386,868
Cost of sales:				
Cost of materials and other	105,596	89,120	330,644	266,749
Operating expenses (excluding depreciation and amortization presented below)	14,489	9,940	40,501	28,789
Depreciation and amortization	6,252	4,744	18,287	14,227
Total cost of sales	126,337	103,804	389,432	309,765
Operating expenses related to wholesale business (excluding depreciation and amortization presented below)	906	722	2,388	2,197
General and administrative expenses	3,076	2,751	9,798	8,255
Depreciation and amortization	450	718	1,434	2,170
Loss (gain) on asset disposals	717	(5)	648	2
Total operating costs and expenses	131,486	107,990	403,700	322,389
Operating income	32,624	22,636	94,611	64,479
Interest expense, net	11,108	7,124	30,096	16,657
Income from equity method investments	(1,924)	(1,584)	(4,681)	(3,005)
Other expense (income), net	8	(1)	8	(1)
Total non-operating expenses, net	9,192	5,539	25,423	13,651
Income before income tax expense	23,432	17,097	69,188	50,828
Income tax expense	106	174	285	333
Net income attributable to partners	$23,326	$ 16,923	$68,903	$50,495
Comprehensive income attributable to partners	$23,326	$ 16,923	$68,903	$50,495
Less: General partner's interest in net income, including incentive distribution rights	6,636	4,745	18,478	13,406
Limited partners' interest in net income	$16,690	$ 12,178	$50,425	$37,089
Net income per limited partner unit:				
Common units - (basic)	$0.68	$ 0.50	$2.07	$1.52
Common units - (diluted)	$0.68	$ 0.50	$2.07	$1.52
Weighted average limited partner units outstanding:				
Common units - (basic)	24,395,183	24,361,457	24,387,995	24,341,921
Common units - (diluted)	24,401,908	24,389,582	24,395,880	24,382,426
Cash distributions per limited partner unit	$0.790	$ 0.715	$2.310	$2.110

See accompanying notes to the condensed consolidated financial statements

Financial Statements

Delek Logistics Partners, LP

Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Nine Months Ended September 30,					
	2018			2017		
Cash flows from operating activities:						
Net income	$	68,903		$	50,495	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	19,721			16,397		
Amortization of customer contract intangible assets	4,207			—		
Amortization of deferred revenue	(1,095		)	(1,004		)
Amortization of deferred financing costs and debt discount	1,984			1,438		
Accretion of asset retirement obligations	267			219		
Deferred income taxes	—			158		
Income from equity method investments	(4,681		)	(3,005		)
Dividends from equity method investments	5,128			765		
Loss on asset disposals	648			2		
Unit-based compensation expense	518			545		
Changes in assets and liabilities:						
Accounts receivable	1,198			(1,115		)
Inventories and other current assets	17,022			2,028		
Accounts payable and other current liabilities	(4,311		)	8,501		
Accounts receivable/payable to related parties	(50,030		)	2,092		
Non-current assets and liabilities, net	(1,879		)	(365		)
Net cash provided by operating activities	57,600			77,151		
Cash flows from investing activities:						
Asset acquisitions, net of assumed ARO liabilities	(72,222		)	(6,443		)
Purchases of property, plant and equipment	(8,674		)	(9,187		)
Proceeds from sales of property, plant and equipment	465			—		
Purchases of intangible assets	(144,219		)	(2,560		)
Distributions from equity method investments	957			753		
Equity method investment contributions	(172		)	(3,531		)
Net cash used in investing activities	(223,865		)	(20,968		)
Cash flows from financing activities:						
Proceeds from issuance of additional units to maintain	20			21		

2% General Partner interest						
Distributions to general partner	(17,010		)	(12,839		)
Distributions to common unitholders - public	(20,500		)	(19,208		)
Distributions to common unitholders - Delek	(34,335		)	(31,555		)
Distributions to Delek unitholders and general partner related to Big Spring Logistic Assets Acquisition	(98,798		)	—		
Proceeds from revolving credit facility	678,000			205,700		
Payments of revolving credit facility	(324,700		)	(439,500		)
Proceeds from issuance of senior notes	—			248,112		
Deferred financing costs paid	(5,264		)	(5,937		)
Reimbursement of capital expenditures by Delek	3,183			4,254		
Net cash provided by (used in) financing activities	180,596			(50,952		)
Net increase in cash and cash equivalents	14,331			5,231		
Cash and cash equivalents at the beginning of the period	4,675			59		
Cash and cash equivalents at the end of the period	$	19,006		$	5,290	
Supplemental disclosures of cash flow information:						
Cash paid during the period for:						
Interest	$	24,446		$	9,288	
Income taxes	$	136		$	60	
Non-cash investing activities:						
Decrease in accrued capital expenditures	$	(1,836	)	$	(491	)
Non-cash financing activities:						
Sponsor contribution of fixed assets	$	—		$	67	

See accompanying notes to the condensed consolidated financial statements

Note 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.

The Partnership is a Delaware limited partnership formed in April 2012 by Old Delek (as defined below) and its subsidiary Delek Logistics GP, LLC, our general partner (our "general partner").

In January 2017, Delek US Holdings, Inc. ("Old Delek") (and various related entities) entered into an Agreement and Plan of Merger with Alon USA Energy, Inc. (NYSE: ALJ) ("Alon USA"), as subsequently amended on February 27 and April 21, 2017 (as so amended, the "Merger Agreement"). The related merger (the "Delek/Alon Merger") was effective July 1, 2017 (the “Effective Time”), resulting in a new post-combination consolidated registrant renamed Delek US Holdings, Inc. (“New Delek”), with Alon USA and Old Delek surviving as wholly-owned subsidiaries. New Delek is the successor issuer to Old Delek and Alon USA pursuant to Rule 12g-3(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Unless the context otherwise requires, references in this report to "Delek" refer collectively to Old Delek with respect to periods prior to July 1, 2017, or New Delek, with respect to periods on or after July 1, 2017, and any of Old Delek's or New Delek's, as applicable, subsidiaries, other than the Partnership and its subsidiaries and its general partner.

Effective March 1, 2018, the Partnership, through its wholly-owned subsidiary DKL Big Spring, LLC, acquired from Delek certain logistics assets primarily located at or adjacent to Delek's refinery near Big Spring, Texas (the "Big Spring Refinery") and Delek's light products distribution terminal located in Stephens County, Oklahoma (collectively, the "Big Spring Logistic Assets" and such transaction the "Big Spring Logistic Assets Acquisition"). See Note 2 for further information regarding the Big Spring Logistic Assets Acquisition.

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, 2017 (our "Annual Report on Form 10-K"), filed with the Securities and Exchange Commission (the "SEC") on March 1, 2018. 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, 2017 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, which are presented as related parties in these accompanying condensed consolidated financial statements. 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.

Certain prior period amounts have been reclassified in order to conform to the current period presentation. Additionally, certain changes to presentation of the prior period statements of income have been made in order to conform to the current period presentation, primarily relating to the addition of a subtotal entitled 'cost of sales' which includes all costs directly attributable to the generation of the related revenue, as defined by GAAP, and the retitling of what was previously referred to as 'cost of goods sold' to 'cost of materials and other'. In connection with this change in presentation, we have revised our related accounting policy as follows:

Cost of Materials and Other and Operating Expenses

Cost of materials and other includes (i) all costs of purchased refined products, additives and related transportation of such products, (ii) costs associated with the operation of our trucking assets, which primarily include allocated employee costs and other costs related to fuel, truck leases and repairs and maintenance, (iii) the cost of pipeline capacity leased from a third-party, and (iv) gains and losses related to our commodity hedging activities.

Operating expenses include the costs associated with the operation of owned terminals and pipelines and terminalling expense at third-party locations, excluding depreciation and amortization. These costs primarily include outside services, allocated employee costs, repairs and maintenance costs and energy and utility costs. Operating expenses related to the wholesale business are excluded from cost of sales because they primarily relate to costs associated with selling the products through our wholesale business.

Depreciation and amortization is separately presented in our statement of income and disclosed by reportable segment in Note 12.

New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (the "FASB") issued guidance related to disclosure requirements for fair value measurements. The pronouncement eliminates, modifies and adds disclosure requirements for fair value measurements. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We expect to adopt this guidance on or before the effective date and do not expect adopting this new guidance will have a material impact on our business, financial condition or results of operations.

In August 2017, the FASB issued guidance to better align financial reporting for hedging activities with the economic objectives of those activities for both financial (e.g., interest rate) and commodity risks. The guidance was intended to create more transparency in the presentation of financial results, both on the face of the financial statements and in the footnotes, and simplify the application of hedge accounting guidance. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Companies are required to apply the guidance on a modified retrospective transition method in which the cumulative effect of the change will be recognized within equity in the consolidated balance sheet as of the date of adoption. Early adoption is permitted, including in an interim period. If a company early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. We expect to adopt this guidance on or before the effective date and are currently evaluating the impact that adopting this new guidance will have on our business, financial condition and results of operations.

In May 2017, the FASB issued guidance that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The modification accounting guidance applies if the value, vesting conditions or classification of the award changes. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. This guidance should be applied prospectively to an award modified on or after the adoption date. We adopted this guidance on January 1, 2018 and the adoption did not have a material impact on our business, financial condition or results of operations.

In February 2017, the FASB issued guidance clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. The amendments in this guidance should be applied using either i) a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption or ii) a retrospective basis to each period presented in the financial statements. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. We adopted this guidance on January 1, 2018, and the adoption did not have a material impact on our business, financial condition or results of operations.

In January 2017, the FASB issued guidance concerning the goodwill impairment test that eliminates Step 2, which required a comparison of the implied fair value of goodwill of the reporting unit with the carrying amount of that goodwill for that reporting unit. It also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative assessment, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. As permitted under Accounting Standards Update 2017-04, we expect to early adopt this guidance in the fourth quarter of 2018 in connection with our 2018 goodwill impairment tests to be performed as of October 31, 2018. We do not anticipate that the adoption will have a material impact on our business, financial condition or results of operations.

In August 2016, the FASB issued guidance that clarifies eight cash flow classification issues pertaining to cash receipts and cash payments. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted this guidance on January 1, 2018 and the adoption did not have a material impact on our business, financial condition or results of operations, except for reclassifications of certain distributions received from equity method investees, due to us making an accounting policy election to classify distributions received from equity method investees using the cumulative earnings approach. Under this approach, distributions received are considered returns on investment and classified as cash inflows from operating activities, unless the investor’s cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings (as adjusted for amortization of basis differences) recognized by the investor. When such an excess occurs, the current-period distribution up to this excess should be considered a return of investment and classified as cash inflows from investing activities. This resulted in a reclassification of $0.8 million of distributions received in the nine months ended September 30, 2017 from the line item entitled dividends from equity method investments in net cash provided by (used in) operating activities to the line item entitled distributions from equity method investments in net cash provided by (used in) investing activities in the condensed consolidated statements of cash flows.

In February 2016, the FASB issued guidance that requires the recognition of a lease liability and a right-of-use asset, initially measured at the present value of the lease payments, in the statement of financial condition for all leases with terms longer than one year. Subsequent guidance was issued to consider the impact of practical expedients. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We plan to adopt the new lease standard on January 1, 2019. We plan to elect the package of practical expedients which, among other things, allows us to carry forward the historical lease classification. We plan to also elect the practical expedient not to separate lease and non-lease components, which allows us to combine the components if certain criteria are met. Further, we plan to elect the optional transition method, which allows us to recognize a cumulative-effect adjustment to the opening balance sheet of retained earnings at the date of adoption and to not recast our comparative periods. We do not plan to elect the hindsight practical expedients, which would have allowed us to use hindsight in determining the reasonably certain lease term.

As part of our efforts to prepare for adoption, beginning in 2018, we formed a project implementation team, as well as a project timeline, to evaluate the guidance. We have substantially completed our analysis of existing leases and the impact on our business processes and accounting systems. We continue to evaluate the impact of the guidance on our controls and financial statement disclosures, and expect to implement any changes to accommodate the new accounting and disclosure requirements prior to adoption on January 1, 2019. Because we are the lessor to primarily operating leases and the guidance does not substantially change the accounting for these leases, we anticipate adoption of the guidance will not have a material impact on our business, financial condition or results of operations.

Notes to Condensed Consolidated Financial Statements (Unaudited)

In January 2016, the FASB issued guidance that affects the accounting for equity investments, financial liabilities accounted for under the fair value option and the presentation and disclosure requirements for financial instruments. Under the new guidance, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification for equity securities with readily determinable fair values. For financial liabilities when the fair value option has been elected, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. It will require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and will eliminate the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. We adopted this guidance on January 1, 2018, and the adoption did not have a material impact on our business, financial condition or results of operations.

In May 2014, the FASB issued guidance as codified in Accounting Standards Codification ("ASC") 606, “Revenue from Contracts with Customers ("ASC 606"),” to clarify the principles for recognizing revenue. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires improved interim and annual disclosures that enable the users of financial statements to better understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, and can be adopted retrospectively. We adopted this guidance on January 1, 2018, using the modified retrospective transition method applied to contracts which were not completed as of January 1, 2018, and the adoption did not have a material impact on our business, financial condition or results of operations.

The Partnership has updated its policies as it relates to revenue recognition. Revenue is measured based on consideration specified in a contract with a customer. The Partnership recognizes revenue when it satisfies a performance obligation by transferring control over a product or by providing a service to a customer. The adoption of ASC 606 did not materially change our revenue recognition patterns. Revenues for products sold are generally recognized upon delivery of the product, which is when title and control of the product is transferred. Transaction prices for these products are typically at market rates for the product at the time of delivery. Service revenues are recognized as crude oil, intermediate and refined product are shipped through, delivered by or stored in our pipelines, trucks, terminals and storage facility assets, as applicable. We do not recognize product revenues for these services as the product does not represent a promised good in the context of ASC 606. All service revenues are based on regulated tariff rates or contractual rates. Payment terms require customers to pay shortly after delivery and do not contain significant financing components.

Certain agreements for gathering, transportation, storage, terminalling, and offloading with Delek are considered operating leases under ASC 840, *Leases* ("ASC 840"). We identified the separate lease and service components of our revenues under these leases and applied ASC 606 only to the service component, while the lease component continued to be accounted for under ASC 840. Refer to Note 4 for further information.

the adoption of ASC 606,

Note 2 - Acquisitions

Big Spring Logistic Assets Acquisition

Effective March 1, 2018, the Partnership, through its wholly-owned subsidiary DKL Big Spring, LLC, acquired the Big Spring Logistic Assets from Delek, which are primarily located at or adjacent to the Big Spring Refinery. The total purchase price was $170.8 million, subject to certain post-closing adjustments, financed through borrowings under the Partnership's revolving credit facility.

The Big Spring Logistic Assets include:

- Approximately 75 storage tanks and certain ancillary assets (such as tank pumps and piping) primarily located adjacent to the Big Spring Refinery;

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- An asphalt terminal and a light products terminal;
- Certain crude oil and refined product pipelines; and
- Other logistics assets, such as four underground saltwells used for natural gas liquids storage.

In connection with the closing of the transaction, Delek, the Partnership and various of their respective subsidiaries entered into and amended certain existing contracts, including entering into new pipelines, storage and throughput facilities and asphalt services agreements. The transaction and related agreements were approved by the Conflicts Committee of the Partnership's general partner, which is comprised solely of independent directors. See Note 3 for more detailed descriptions of these agreements.

The Big Spring Logistic Assets Acquisition was considered a transaction between entities under common control. Accordingly, the Big Spring Logistic Assets were recorded at amounts based on Delek's historical carrying value as of the acquisition date. The excess of the cash paid over the historical carrying value of the assets acquired from Delek amounted to $98.8 million and was recorded in equity. The historical carrying value of the Big Spring Logistic Assets as of the acquisition date was $72.0 million, which is net of $0.8 million of assumed asset retirement obligations. Prior periods have not been recast, as these assets did not constitute a business in accordance with Accounting Standard Update 2017-01, "Clarifying the Definition of a Business". We capitalized approximately $0.4 million of acquisition costs related to the Big Spring Logistic Assets Acquisition during the nine months ended September 30, 2018. We did not capitalize any acquisition costs during the three months ended September 30, 2018.

Marketing Contract Intangible Acquisition

Additionally, concurrent with the Big Spring Logistic Assets Acquisition, Delek, the Partnership and various of their respective subsidiaries entered into a new marketing agreement, whereby the Partnership markets certain finished products produced at or sold from the Big Spring Refinery to various customers in return for a marketing fee (the "Marketing Contract Intangible Acquisition"). We recorded a related contract intangible asset in the amount of $144.2 million based on the amount paid to enter into the contract, which represents the fair value of the intangible asset. The contract intangible asset will be amortized over a twenty year period as a component of net revenues from affiliates. The total consideration paid was financed through borrowings under the Partnership's revolving credit facility. This transaction and related marketing agreement were approved by the Conflicts Committee of the Partnership's general partner, which is comprised solely of independent directors. See Note 3 for a more detailed description of this marketing agreement.

Big Spring Acquisition

On September 15, 2017, the Partnership, through its wholly owned subsidiary Delek Marketing & Supply, LP, acquired from Plains Pipeline, L.P. an approximate 40-mile pipeline and related ancillary assets (the "Big Spring Pipeline") (such transaction, the "Big Spring Acquisition") for approximately $9.0 million to complement our existing asset base. The Big Spring Pipeline originates in Big Spring, Texas and terminates in Midland, Texas. The Big Spring Acquisition was accounted for as an asset acquisition. The following table summarizes the allocation of the relative fair value assigned to the asset groups for the Big Spring Pipeline (in thousands):

Property, plant and equipment	$6,443
Intangible assets [1]	2,560
Total	$9,003

[1] Intangible assets acquired represent rights-of-way assets with indefinite useful lives. Rights-of-way assets are not subject to amortization.

Note 3 - Related Party Transactions

Commercial Agreements

The Partnership has a number of long-term, fee based commercial agreements with Delek under which we provide various services, including crude oil gathering and crude oil, intermediate and refined products transportation and storage services, and marketing, terminalling and offloading services to Delek. Most of these agreements have an initial term ranging from five to ten years, which may be extended for various renewal terms at the option of Delek. In November 2017, Delek opted to renew certain of these agreements for subsequent five-year terms expiring in November 2022. In the case of our marketing agreement with Delek in respect to the Tyler refinery, the initial term has been extended through 2026. The fees under each agreement are payable to us monthly by Delek or certain third parties to whom Delek has assigned certain of its rights and are generally subject to increase or decrease on July 1 of each year, by the amount of any change in various inflation-based indices, including the Federal Energy Regulatory Commission ("FERC") oil pipeline index or various iterations of the consumer price index ("CPI") and the producer price index ("PPI"); provided, however, that in no event will the fees be adjusted below the amount initially set forth in the applicable agreement. 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, subject to certain exceptions as specified in the applicable agreement. Carry-over of any volumes or revenue in excess of such commitment to any subsequent quarter is not permitted.

See our Annual Report on Form 10-K for a more complete description of certain of our commercial agreements and other agreements with Delek.

During the nine months ended September 30, 2018, we entered into the following material agreements with Delek:

Asset/Operation	Initiation Date	Initial/Maximum Term (years) [1]	Service	Minimum Throughput Commitment (bpd)	Fee [2]
Pipelines, Storage and Throughput Facilities Agreement (Big Spring):					
Crude Oil and Refined Products Throughput	March 1, 2018	10/15	Pipeline Throughput	104,300	$0.05/bbl
Rail Offloading	March 1, 2018	10/15	Offloading Services	4,500	$0.40/bbl
Terminalling	March 1, 2018	10/15	Dedicated Terminalling Services	29,250	$0.66/bbl
Storage	March 1, 2018	10/15	Storage	N/A	$1,374,630/month
Asphalt Services Agreement (Big Spring):					
Terminalling	March 1, 2018	10/15	Dedicated Asphalt Terminalling	1,020 to 2,380 based on seasonality	$8.30/bbl
Storage	March 1, 2018	10/15	Storage	N/A	$456,490/month
Marketing Agreement (Big Spring):					
Marketing Services	March 1, 2018	10/15	Dedicated Marketing and Selling	65,000	$0.50 - $0.71/bbl

(1) Maximum term gives effect to the extension by (i) the Partnership of the Pipelines, Storage and Throughput Facilities Agreement and Asphalt Services Agreement pursuant to the terms thereof and (ii) Delek of the Marketing Agreement pursuant to the terms thereof. Maximum term excludes the impact of the automatic annual renewal of these agreements, unless terminated by either party, subsequent to the extension.
(2) Fees payable to the Partnership by Delek.

Big Spring Pipeline, Storage and Throughput Facilities Agreement

In connection with the Big Spring Logistic Assets Acquisition, Alon USA, LP, a Texas limited partnership and an indirect, wholly-owned subsidiary of Delek ("Alon USA, LP"), and DKL Big Spring, LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Partnership, entered into the Pipelines, Storage and Throughput Facilities Agreement (Big Spring Refinery Logistic Assets and Duncan Terminal) (the "Logistics Agreement"). Under the Logistics Agreement, the Partnership will provide storage and throughput services at certain of the Big Spring Logistic Assets for Alon USA, LP. The Partnership will act as bailee of crude oil and refined petroleum products owned by Alon USA, LP or its assignee held in such assets owned and operated by the Partnership. The Partnership will charge fees to Alon USA, LP based on throughput volumes received or delivered ranging from $0.05 to $0.66 per barrel and related storage fees depending on the type of service or product. The fees under the Logistics Agreement may be adjusted annually for inflation. The initial term of the Logistics Agreement is ten years; the Partnership has a one-time option to extend the Logistics Agreement for up to five additional years; and the Logistics Agreement will continue on a year-to-year basis following such renewal term unless terminated by either party.

Big Spring Asphalt Services Agreement

In connection with the Big Spring Logistic Assets Acquisition, Alon USA, LP and the Partnership entered into the Big Spring Asphalt Services Agreement (the "Asphalt Services Agreement"). Under the Asphalt Services Agreement, the Partnership will provide asphalt storage and handling services at certain of the Big Spring Logistic Assets (such assets, the "Asphalt Facilities"). The Partnership will provide services to Alon USA, LP at the Asphalt Facilities and serve as bailee of all raw materials, and other hydrocarbons, used to make asphalt products owned by Alon

USA, LP or its assignee held in the Asphalt Facilities. The Partnership will charge fees to Alon USA, LP based on throughput volumes delivered of $8.30 per barrel and related storage fees. The fees under the Asphalt Services Agreement may be adjusted annually for inflation. The initial term of the Asphalt Services Agreement is ten years; the Partnership has a one-time option to extend the Asphalt Services Agreement for up to five additional years; and the Asphalt Services Agreement will continue on a year-to-year basis following such renewal term unless terminated by either party.

Big Spring Marketing Agreement

Concurrent with the Big Spring Logistic Assets Acquisition, Alon USA, LP and the Partnership entered into the Marketing Agreement (the “Marketing Agreement”). Under the Marketing Agreement, the Partnership will provide Alon USA, LP with services for the marketing and selling of certain refined petroleum products that are produced or sold from the Big Spring Refinery. The Partnership will charge Alon USA, LP fees for such marketing and selling services of $0.50 to $0.71 per barrel depending on the type of product. The fees under the Marketing Agreement may be adjusted annually for inflation. The initial term of the Marketing Agreement is ten years; Alon USA, LP has a one-time option to extend the Marketing Agreement for up to five additional years; and the Marketing Agreement will continue on a year-to-year basis following such renewal term unless terminated by either party.

Omnibus Agreement

The Partnership entered into an omnibus agreement with Delek, our general partner, Delek Logistics Operating, LLC, Lion Oil Company and certain of the Partnership's and Delek's other subsidiaries on November 7, 2012, which was subsequently amended and restated on July 26, 2013, February 10, 2014, March 31, 2015 and August 3, 2015 and was further amended effective March 1, 2018 in connection with the Big Spring Logistic Assets Acquisition (collectively, as amended, the "Omnibus Agreement"). In conjunction with the March 1, 2018 amendment, our obligation to pay an annual fee to Delek for its provision of centralized corporate services to the Partnership was increased to $3.9 million annually. Pursuant to the terms of the Omnibus Agreement, we were reimbursed by Delek for certain capital expenditures in the amount of $0.5 million and $3.2 million during the three and nine months ended September 30, 2018, respectively, and $0.4 million and $4.3 million during the three and nine months ended September 30, 2017, respectively. These amounts are recorded in other long-term liabilities and are amortized to revenue over the life of the underlying revenue agreement corresponding to the asset.

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nt. During the three and nine months ended September 30, 2018 we recorded increases to accounts receivable from related parties of $1.4 million and $8.0 million, respectively, for these matters for which we expect to be reimbursed, which were recorded as reductions to operating expense. We incurred $0.3 million of reimbursable costs for these matters during the nine months ended September 30, 2017. During the three months ended September 30, 2017, we recorded an adjustment of $(0.1) million for these matters.

Other Transactions

The Partnership is currently managing a long-term capital project on behalf of Delek for the construction of a gathering system in the Permian Basin and a long-haul crude oil pipeline that will originate in Midland, Texas and terminate in Houston, Texas (the "Delek Permian Gathering Project"). The Partnership incurs the costs in connection with the construction of the assets and is subsequently reimbursed by Delek. Amounts reimbursable by Delek are recorded in accounts receivable from related parties.

Summary of Transactions

Revenues from affiliates consist primarily of revenues from gathering, transportation, storage, offloading, Renewable Identification Numbers, wholesale marketing and products terminalling services provided primarily to Delek based on regulated tariff rates or contractually based fees and product sales. Affiliate operating expenses are primarily comprised of amounts we reimburse Delek, or our general partner, as the case may be, for the services provided to us under the First Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement"). These expenses could also include reimbursement and indemnification amounts from Delek, as provided under the Omnibus Agreement. Additionally, the Partnership is required to reimburse Delek for direct or allocated costs and expenses incurred by Delek on behalf of the Partnership and for charges Delek incurred for the management and operation of our logistics assets, including an annual fee for various centralized corporate services, which are included in general and administrative services. In addition to these transactions, we purchase finished products and bulk biofuels from Delek, the costs of which are included in cost of materials and other.

Notes to Condensed Consolidated Financial Statements (Unaudited)

A summary of revenue, purchases from affiliates and expense transactions with Delek and its affiliates is as follows (in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$63,835	$40,131	$178,559	$116,574
Purchases from affiliates	$86,944	$9,232	$269,976	$26,412
Operating and maintenance expenses	$10,314	$7,275	$29,225	$20,756
General and administrative expenses	$774	$2,073	$4,236	$5,327

Quarterly Cash Distributions

Our common and general partner unitholders and the holders of incentive distribution rights ("IDRs") are entitled to receive quarterly distributions of available cash as it is determined by the board of directors of our general partner in accordance with the terms and provisions of our Partnership Agreement. In February, May and August 2018, we paid quarterly cash distributions of $22.8 million, $24.0 million and $25.0 million, respectively, of which $16.2 million, $17.2 million and $18.0 million, respectively, were paid to Delek and our general partner. In February, May and August 2017, we paid quarterly cash distributions of $20.5 million, $21.0 million and $21.8 million, respectively, of which $14.2 million, $14.7 million and $15.4 million, respectively, were paid to Delek and our general partner. On October 23, 2018, our general partner's board of directors declared a quarterly cash distribution totaling $26.0 million, based on the available cash as of the date of determination for the end of the third quarter of 2018, payable on November 9, 2018, of which $18.8 million is expected to be paid to Delek and our general partner, including the payment for the IDRs.

Note 4 - Revenues

We generate revenue by charging fees for gathering, transporting, offloading and storing crude oil; for storing intermediate products and feed stocks; for distributing, transporting and storing refined products; for marketing refined products output of Delek's Tyler and Big Spring refineries; and for wholesale marketing in the west Texas area. A significant portion of our revenue is derived from long-term commercial agreements with Delek, which provide for annual fee adjustments for increases or decreases in the CPI, PPI or FERC index (refer to Note 3 for a more detailed description of these agreements). In addition to the services we provide to Delek, we also generate substantial revenue from crude oil, intermediate and refined products transportation services for, and terminalling and marketing services to, third parties primarily in Texas, Tennessee and Arkansas. Certain of these services are provided pursuant to contractual agreements with third parties. Payment terms require customers to pay shortly after delivery and do not contain significant financing components.

The majority of our commercial agreements with Delek meet the definition of a lease since: (1) performance of the contracts is dependent on specified property, plant or equipment and (2) it is remote that one or more parties other than Delek will take more than a minor amount of the output associated with the specified property, plant or equipment. As part of our adoption of ASC 606, we applied the new revenue recognition standard only to the service component of these leases. The bifurcation of the lease and service components was based on an analysis of lease-related and service-related costs for each contract, adjusted for representative profit margins. The lease component continues to be accounted for under the applicable lease accounting guidance.

The following table represents a disaggregation of revenue for each reportable segment for the periods indicated (in thousands):

	Three Months Ended September 30, 2018		
	Pipelines and Transportation	Wholesale Marketing and Terminalling	Consolidated
Service Revenue - Third Party	$3,653	$ 64	$ 3,717
Service Revenue - Affiliate (1)	24,536	14,921	39,457
Product Revenue - Third Party	—	96,558	96,558
Product Revenue - Affiliate	—	9,017	9,017
Lease Revenue - Affiliate	11,596	3,765	15,361
Total Revenue	$39,785	$ 124,325	$ 164,110

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Notes to Condensed Consolidated Financial Statements (Unaudited)

	Nine Months Ended September 30, 2018		
	Pipelines and Transportation	Wholesale Marketing and Terminalling	Consolidated
Service Revenue - Third Party	$11,618	$ 866	$ 12,484
Service Revenue - Affiliate [1]	67,593	39,068	106,661
Product Revenue - Third Party	—	307,268	307,268
Product Revenue - Affiliate	—	30,045	30,045
Lease Revenue - Affiliate	32,031	9,822	41,853
Total Revenue	$111,242	$ 387,069	$ 498,311

[1] Net of $1.8 million and $4.2 million of amortization expense for the three and nine months ended, respectively, related to a customer contract intangible asset recorded in the wholesale marketing and terminalling segment.

As of September 30, 2018, we expect to recognize $1.2 billion in service and lease revenues related to our unfulfilled performance obligations pertaining to the minimum volume commitments and capacity utilization under the non-cancelable terms of our commercial agreements with Delek. We do not disclose information about remaining performance obligations that have original expected durations of one year or less.

Our unfulfilled performance obligations as of September 30, 2018 were as follows (in thousands):

Remainder of 2018	$41,162
2019	164,646
2020	164,295
2021	153,541
2022 and thereafter	635,164
Total expected revenue on remaining performance obligations	$1,158,808

Note 5 - Inventory

Inventories consisted of $4.2 million and $20.9 million of refined petroleum products as of September 30, 2018 and December 31, 2017, respectively. Inventory is stated at the lower of cost or net realizable value, with cost determined on a first-in, first-out basis. We recognize lower of cost or net realizable value charges as a component of cost of materials and other in the consolidated statements of income and comprehensive income, which amounted to a nominal amount during both the three and nine months ended September 30, 2018 and $0.3 million during both the three and nine months ended September 30, 2017.

Note 6 - Long-Term Obligations

DKL Credit Facility

At December 31, 2017, the Partnership had a $700.0 million senior secured revolving credit agreement with Fifth Third Bank ("Fifth Third"), as administrative agent, and a syndicate of lenders (the "2014 Facility") with a $100.0 million accordion feature, bearing interest at (i) either a U.S. prime dollar rate or a LIBOR Rate for borrowings denominated in U.S. Dollars, or (ii) either a Canadian dollar prime rate, or a Canadian Dealer Offered Rate, for borrowings denominated in Canadian dollars (in each case plus applicable margins, at the election of the borrowers and as a function of draw down currency). The 2014 Facility had a maturity date of December 30, 2019, and outstanding borrowings at December 31, 2017 were $179.9 million. The obligations under the 2014 Facility were secured by a first priority lien on substantially all of the

Partnership's tangible and intangible assets. Additionally, a subsidiary of Delek provided a limited guaranty of the Partnership's obligations under the 2014 Facility.

On September 28, 2018, the Partnership entered into a third amended and restated senior secured revolving credit agreement, which amended and restated the 2014 Facility (hereafter, the "DKL Credit Facility") with Fifth Third, as administrative agent, and a syndicate of lenders. The DKL Credit Facility contains a dual currency borrowing tranche that permits draw downs in U.S. or Canadian dollars. Under the terms of the DKL Credit Facility, among other things, the lender commitments were increased from $700.0 million to $850.0 million. The DKL Credit Facility also contains an accordion feature whereby the Partnership can increase the size of the credit facility to an aggregate of $1.0 billion, subject to receiving increased or new commitments from lenders and the satisfaction of certain other conditions precedent.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The obligations under the DKL Credit Facility remain secured by first priority liens on substantially all of the Partnership's and its subsidiaries' tangible and intangible assets. Additionally, Delek Marketing & Supply, LLC ("Delek Marketing"), a wholly-owned subsidiary of Delek, continues to provide a limited guaranty of the Partnership's obligations under the DKL Credit Facility. 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 in favor of Delek Marketing (the "Holdings Note") and (ii) secured by Delek Marketing's pledge of the Holdings Note to the lenders under the DKL Credit Facility. As of both September 30, 2018 and December 31, 2017, the principal amount of the Holdings Note was $102.0 million.

The DKL Credit Facility has a maturity date of September 28, 2023. Borrowings denominated in U.S. dollars bear interest at either a U.S. dollar prime rate, plus an applicable margin, or the London Interbank Offered Rate ("LIBOR"), plus an applicable margin, at the election of the borrowers. Borrowings denominated in Canadian dollars bear interest at either a Canadian dollar prime rate, plus an applicable margin, or the Canadian Dealer Offered Rate, plus an applicable margin, at the election of the borrowers. The applicable margin in each case and the fee payable for the unused revolving commitments vary based upon the Partnership's most recent total leverage ratio calculation delivered to the lenders, as called for and defined under the terms of the DKL Credit Facility. At September 30, 2018, the weighted average interest rate for our borrowings under the facility was approximately 4.9%. Additionally, the DKL Credit Facility requires us to pay a leverage ratio dependent quarterly fee on the average unused revolving commitment. As of September 30, 2018, this fee was 0.4% per year.

As of September 30, 2018, we had $533.2 million of outstanding borrowings under the DKL Credit Facility, with no letters of credit in place. Unused credit commitments under the DKL Credit Facility as of September 30, 2018, were $316.8 million.

6.75% Senior Notes Due 2025

On May 23, 2017, the Partnership and Delek Logistics Finance Corp., a Delaware corporation and a wholly-owned subsidiary of the Partnership (“Finance Corp.” and together with the Partnership, the “Issuers”), issued $250.0 million in aggregate principal amount of 6.75% senior notes due 2025 (the “2025 Notes”) at a discount. The 2025 Notes are general unsecured senior obligations of the Issuers. The 2025 Notes are unconditionally guaranteed jointly and severally on a senior unsecured basis by the Partnership's existing subsidiaries (other than Finance Corp., the "Guarantors") and will be unconditionally guaranteed on the same basis by certain of the Partnership’s future subsidiaries. The 2025 Notes rank equal in right of payme

future subordinated indebtedness of the Issuers.

At any time prior to May 15, 2020, the Issuers may redeem up to 35% of the aggregate principal amount of the 2025 Notes with the net cash proceeds of one or more equity offerings by the Partnership at a redemption price of 106.750% of the redeemed principal amount, plus accrued and unpaid interest, if any, subject to certain conditions and limitations. Prior to May 15, 2020, the Issuers may redeem all or part of the 2025 Notes at a redemption price of the principal amount, plus accrued and unpaid interest, if any, plus a "make whole" premium, subject to certain conditions and limitations. In addition, beginning on May 15, 2020, e Issuers may, subject to certain conditions and limitations, redeem all or part of the 2025 Notes at a redemption price of 105.063% of the redeemed principal for the twelve-month period beginning on May 15, 2020, 103.375% for the twelve-month period beginning on May 15, 2021, 101.688% for the twelve-month period beginning on May 15, 2022 and 100.00% beginning on May 15, 2023 and thereafter, plus accrued and unpaid interest, if any.

In the event of a change of control, accompanied or followed by a ratings downgrade within a certain period of time, subject to certain conditions and limitations, the Issuers will be obligated to make an offer for the purchase of the 2025 Notes from holders at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

In connection with the issuance of the 2025 Notes, the Issuers and the Guarantors entered into a registration rights agreement, whereby the Issuers and the Guarantors were required to exchange the 2025 Notes for new notes with terms substantially identical in all material respects with the 2025 Notes (except the new notes do not contain terms with respect to transfer restrictions). On April 25, 2018, we made an offer to exchange the 2025 Notes and the related guarantees that were validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradeable, as required under the terms of the original indenture (the "Exchange Offer"). The Exchange Offer expired on May 23, 2018 (the "Expiration Date"). The terms of the exchange notes that were issued as a result of the Exchange Offer (also referred to as the "2025 Notes") are substantially identical to the terms of the original 2025 Notes.
As of September 30, 2018, we had $250.0 million in outstanding principal amount of the 2025 Notes. Outstanding borrowings under the 2025 Notes are net of deferred financing costs and debt discount of $4.9 million and $1.6 million, respectively, as of September 30, 2018, and $5.5 million and $1.7 million, respectively, as of December 31, 2017.

Note 7 - Income Taxes

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.

Note 8 - 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 class of securities. Our participating securities consist of common units, general partner units and IDRs. 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 is computed by dividing limited partners’ interest in net income, after deducting our general partner’s 2% interest and IDRs, by the weighted-average number of outstanding common 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 IDRs, which are held by our general partner pursuant to our Partnership Agreement. The IDRs are paid following the close of each quarter.

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.

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.

Our distributions earned with respect to a given period are declared subsequent to quarter end. Therefore, the table below represents total cash distributions applicable to the period in which the distributions are earned. The expected date of distribution for the distributions earned during the period ended September 30, 2018 is November 9, 2018. The calculation of net income per unit is as follows (dollars in thousands, except units and per unit amounts):

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2018	**2017**	**2018**	**2017**
Net income attributable to partners	$23,326	$ 16,923	$68,903	$ 50,495
Less: General partner's distribution (including IDRs) (1)	6,688	4,852	18,598	13,697
Less: Limited partners' distribution	19,272	17,418	56,343	51,380
Distributions in excess of earnings	$(2,634)	$ (5,347)	$(6,038)	$ (14,582)
General partner's earnings:				
Distributions (including IDRs) (1)	$6,688	$ 4,852	$18,598	$ 13,697
Allocation of distributions in excess of earnings	(52)	(107)	(120)	(291)
Total general partner's earnings	$6,636	$ 4,745	$18,478	$ 13,406
Limited partners' earnings on common units:				
Distributions	$19,272	$ 17,418	$56,343	$ 51,380
Allocation of distributions in excess of earnings	(2,582)	(5,240)	(5,918)	(14,291)
Total limited partners' earnings on common units	$16,690	$ 12,178	$50,425	$ 37,089
Weighted average limited partner units outstanding (2):				
Common units - (basic)	24,395,183	24,361,457	24,387,995	24,341,921
Common units - (diluted)	24,401,908	24,389,582	24,395,880	24,382,426
Net income per limited partner unit (2):				

Common units - (basic)	$0.68	$ 0.50	$2.07	$ 1.52
Common units - (diluted) (3)	$0.68	$ 0.50	$2.07	$ 1.52

(1) General partner distributions (including IDRs) consist of the 2% general partner interest and IDRs, which represent the right of the general partner to receive increasing percentages of quarterly distributions of available cash from operating surplus in excess of $0.43125 per unit per quarter. See Note 9 for further discussion related to IDRs.

(2) We base our calculation of net income per unit on the weighted-average number of common limited partner units outstanding during the period.

[3] Outstanding common unit equivalents of 1,776 were excluded from the diluted earnings per unit calculation for both the three and nine months ended September 30, 2018, as these common unit equivalents did not have a dilutive effect under the treasury stock method. Outstanding common unit equivalents totaling 10,090 were excluded from the diluted earnings per unit calculation for the nine months ended September 30, 2017. There were no outstanding common unit equivalents excluded from the diluted earnings per unit calculation for the three months ended September 30, 2017.

Note 9 - Equity

We had 9,101,137 common limited partner units held by the public outstanding as of September 30, 2018. Additionally, as of September 30, 2018, Delek owned a 61.4% limited partner interest in us, consisting of 15,294,046 common limited partner units and a 94.6% interest in our general partner, which owns the entire 2.0% general partner interest consisting of 497,861 general partner units. Affiliates, who are also members of our general partner's management and board of directors, own the remaining 5.4% interest in our general partner.

Equity Activity

The table below summarizes the changes in the number of units outstanding from December 31, 2017 through September 30, 2018.

	Common - Public	Common - Delek	General Partner	Total
Balance at December 31, 2017	9,088,587	15,294,046	497,604	24,880,237
General partner units issued to maintain 2% interest	—	—	257	257
Unit-based compensation awards [1]	12,550	—	—	12,550
Balance at September 30, 2018	9,101,137	15,294,046	497,861	24,893,044

[1] Unit-based compensation awards are presented net of 598 units withheld for taxes.

The summarized changes in the carrying amount of our equity from December 31, 2017 through September 30, 2018 are as follows (in thousands):

	Common - Public	Common - Delek	General Partner	Total
Balance at December 31, 2017	$174,378	$(197,206)	$(6,397)	$(29,225)
Distributions to unitholders and general partner related to Big Spring Logistic Assets Acquisition	—	(96,822)	(1,976)	(98,798)
Cash distributions [1]	(20,500)	(34,335)	(17,010)	(71,845)
Net income attributable to partners	18,808	31,617	18,478	68,903
Unit-based compensation	189	319	10	518
Other	—	—	20	20
Balance at September 30, 2018	$172,875	$(296,427)	$(6,875)	$(130,427)

[1] Cash distributions include $0.1 million related to distribution equivalents on vested phantom units.

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 to priority income allocations in an amount equal to incentive cash distributions allocated 100% to our general partner.

The following table presents the allocation of the general partner's interest in net income (in thousands, except percentage of ownership interest):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
Net income attributable to partners	$23,326	$16,923	$68,903	$50,495
Less: General partner's IDRs	(6,295)	(4,496)	(17,449)	(12,649)
Net income available to partners	$17,031	$12,427	$51,454	$37,846
General partner's ownership interest	2.0 %	2.0 %	2.0 %	2.0 %
General partner's allocated interest in net income	$341	$249	$1,029	$757
General partner's IDRs	6,295	4,496	17,449	12,649
Total general partner's interest in net income	$6,636	$4,745	$18,478	$13,406

Incentive Distribution Rights

The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under “Marginal Percentage Interest in Distributions” are the percentage interests of our general partner and our unitholders in any available cash from operating surplus that we distribute up to and including the corresponding amount in the column “Total Quarterly Distribution per Unit Target Amount.” The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 2.0% general partner interest and assume that (i) our general partner has contributed any additional capital necessary to maintain its 2.0% general partner interest and (ii) our general partner has not transferred its IDRs.

		Target Quarterly Distribution per Unit Target Amount	Marginal Percentage Interest in Distributions	
			Unitholders	General Partner
Minimum Quarterly Distribution		$ 0.37500	98.0%	2.0 %
First Target Distribution	above	$ 0.37500	98.0%	2.0 %
	up to	$ 0.43125		
Second Target Distribution	above	$ 0.43125	85.0%	15.0 %
	up to	$ 0.46875		
Third Target Distribution	above	$ 0.46875	75.0%	25.0 %
	up to	$ 0.56250		
Thereafter	thereafter	$ 0.56250	50.0%	50.0 %

Cash Distributions

Our Partnership Agreement sets forth the calculation to be used to determine the amount and priority of available cash distributions that our limited partner unitholders and general partner will receive. Our distributions earned with respect to a given period 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 Limited Partner Unit	Total Quarterly Distribution Per Limited Partner Unit, Annualized	Total Cash Distribution, including general partner interest and IDRs (in thousands)	Date of Distribution	Unitholders Record Date
September 30, 2017	$ 0.715	$ 2.86	$ 22,270	November 14, 2017	November 7, 2017
December 31, 2017	$ 0.725	$ 2.90	$ 22,777	February 12, 2018	February 2, 2018
March 31, 2018	$ 0.750	$ 3.00	$ 23,997	May 15, 2018	May 7, 2018
June 30, 2018	$ 0.770	$ 3.08	$ 24,984	August 13, 2018	August 3, 2018
September 30, 2018	$ 0.790	$ 3.16	$ 25,960	November 9, 2018 [1]	November 2, 2018

[1] Expected date of distribution.

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The allocation of total quarterly cash distributions expected to be made on November 9, 2018 to general and limited partners for the three and nine months ended September 30, 2018 and the allocation of total quarterly cash distributions for the three and nine months ended September 30, 2017 are set forth in the table below. Distributions earned with respect to a given period are declared subsequent to quarter end. Therefore, the table below presents 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,	
	2018	**2017**	**2018**	**2017**
General partner's distributions:				
General partner's distributions	$393	$356	$1,149	$1,048
General partner's IDRs	6,295	4,496	17,449	12,649
Total general partner's distributions	6,688	4,852	18,598	13,697
Limited partners' distributions:				
Common limited partners' distributions	19,272	17,418	56,343	51,380
Total cash distributions	$25,960	$22,270	$74,941	$65,077
Cash distributions per limited partner unit	$0.790	$0.715	$2.310	$2.110

Note 10 - Equity Based Compensation

We incurred approximately $0.2 million and $0.5 million of unit-based compensation expense related to the Partnership during the three and nine months ended September 30, 2018, respectively, and $0.2 million and $0.5 million of unit-based compensation expense related to the Partnership during the three and nine months ended September 30, 2017, respectively. These amounts are included in general and administrative expenses in the accompanying condensed consolidated statements of income and comprehensive income. The fair value of phantom unit awards under the Delek Logistics GP, LLC 2012 Long-Term Incentive Plan (the "LTIP") is determined based on the closing price of our common limited partner units on the grant date of the awards. The estimated fair value of our phantom units is amortized over the vesting period using the straight line method. Awards vest over one- to five-year service periods, unless such awards are amended in accordance with the LTIP. As of September 30, 2018, there was $0.4 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 0.6 years.

Note 11 - Equity Method Investments

We have two joint ventures that have constructed separate crude oil pipeline systems and related ancillary assets, which are serving third parties and subsidiaries of Delek. We own a 50% membership interest in the entity formed with an affiliate of Plains All American Pipeline, L.P. ("CP LLC") to operate one of these pipeline systems and a 33% membership interest in the entity formed with Rangeland Energy II, LLC ("Rangeland RIO") to operate the other pipeline system.

The Partnership's investments in these two entities were financed through a combination of cash from operations and borrowings under the 2014 Credit Facility. As of September 30, 2018 and December 31, 2017, the Partnership's investment balance in these joint ventures was $105.2 million and $106.5 million, respectively.

In February 2018, the Partnership and an affiliate of Green Plains Partners LP ("Green Plains") entered into a joint venture engaging in the light products terminalling business. The companies formed DKGP Energy Terminals, LLC ("DKGP Energy"). The Partnership and Green Plains each own a 50% membership interest in DKGP Energy. DKGP Energy signed a membership interest purchase agreement (the "Membership Interest Purchase Agreement") to acquire two light products terminals located in Caddo Mills, Texas and North Little Rock, Arkansas from an affiliate of American Midstream Partners, L.P. ("American Midstream"), subject to certain closing conditions and regulatory approvals (the "DKGP Transaction"). The Membership Interest Purchase Agreement expired on August 1, 2018 pursuant to its terms (primarily due to delays in receiving federal regulatory approval for the acquisition), and the contemplated DKGP Transaction terminated (the "DKGP Termination"). As a result of the DKGP Termination, the contemplated contribution of certain of the Partnership's terminals to DKGP Energy, in connection with the DKGP Transaction, terminated. At this time the Partnership and Green Plains do not have any further transaction or development plans with respect to DKGP Energy.

We do not consolidate any part of the assets or liabilities or operating results of our equity method investees. Our share of net income or loss of the investees will increase or decrease, as applicable, the carrying value of our investments in unconsolidated affiliates. With respect to CP LLC and Rangeland RIO, we determined that these entities do not represent variable interest entities and consolidation is not required. We have the ability to exercise significant influence over each of these joint ventures through our participation in the management committees, which make all significant decisions. However, since all significant decisions require the consent of the other investor(s) without regard to economic interest, we have determined that we have joint control and have applied the equity method of accounting. Our investment in these joint ventures is reflected in our pipelines and transportation segment.

Summarized Financial Information

Combined summarized financial information for our equity method investees is shown below (in thousands):

	September 30, 2018	December 31, 2017
Current assets	$ 16,103	$ 12,671
Non-current assets	$ 240,323	$ 244,329
Current liabilities	$ 4,000	$ 1,798

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$8,384	$7,026	$26,260	$19,719
Gross profit	$8,384	$7,026	$26,260	$19,719
Net income	$4,055	$2,282	$11,567	$6,674

Note 12 - Segment Data

We aggregate our operating segments into two reportable segments: (i) pipelines and transportation and (ii) wholesale marketing and terminalling:

- The assets and investments reported in the pipelines and transportation segment provide crude oil gathering and crude oil, intermediate and finished products transportation and storage services to Delek's refining operations and independent third parties.
- The wholesale marketing and terminalling segment provides wholesale marketing and terminalling services to Delek's refining operations and independent third parties.

Our operating segments adhere to the accounting policies 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 segment contribution margin. Segment contribution margin is defined as net revenues less cost of materials and other and operating expenses, excluding depreciation and amortization.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Pipelines and Transportation				
Net revenues:				
Affiliates	$36,132	$27,805	$99,624	$81,972
Third party	3,653	3,177	11,618	7,910
Total pipelines and transportation	39,785	30,982	111,242	89,882
Cost of materials and other	5,055	4,883	14,691	13,691
Operating expenses (excluding depreciation and amortization)	9,499	8,573	29,054	24,661
Segment contribution margin	$25,231	$17,526	$66,839	$51,530
Capital spending (1)	$2,086	$2,918	$4,320	$6,715
Wholesale Marketing and Terminalling				
Net revenues:				
Affiliates (2)	$27,703	$12,326	$78,935	$34,602
Third party	96,622	87,318	308,134	262,384
Total wholesale marketing and terminalling	124,325	99,644	387,069	296,986
Cost of materials and other	100,541	84,237	315,953	253,058
Operating expenses (excluding depreciation and amortization)	5,896	2,089	13,835	6,325
Segment contribution margin	$17,888	$13,318	$57,281	$37,603
Capital spending (1)	$905	$868	$3,120	$1,981