

PBF Energy Inc.
Form 10-Q
August 07, 2014

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended: June 30, 2014

Or

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

For the transition period from _____ to _____

Commission File Number: 001-35764

PBF ENERGY INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

45-3763855
(I.R.S. Employer
Identification No.)

One Sylvan Way, Second Floor
Parsippany, New Jersey
(Address of principal executive offices)
(973) 455-7500

07054
(Zip Code)

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

As of August 5, 2014, PBF Energy Inc. had outstanding 87,745,116 shares of Class A common stock and 40 shares of Class B common stock.

PBF ENERGY INC.
 FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014
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Explanatory Note

This Form 10-Q is filed by PBF Energy Inc. (“PBF Energy”) which is a holding company whose primary asset is an equity interest in PBF Energy Company LLC (“PBF LLC”). PBF Energy is the sole managing member of, and owner of an equity interest representing approximately 90.5% of the outstanding economic interests in, PBF LLC. PBF Energy operates and controls all of the business and affairs and consolidates the financial results of PBF LLC and its subsidiaries. PBF LLC is a holding company for the companies that directly and indirectly own and operate our business. PBF Holding Company LLC (“PBF Holding”) is a wholly-owned subsidiary of PBF LLC and PBF Finance Corporation (“PBF Finance”) is a wholly-owned subsidiary of PBF Holding. Prior period filings of PBF Energy with the U.S. Securities and Exchange Commission (“SEC”) for the periods March 31, 2013 through March 31, 2014 reflect a combined Form 10-Q and Form 10-K with PBF Holding and PBF Finance. As of June 30, 2014, PBF Energy will file periodic SEC filings separately from PBF Holding and PBF Finance due to the change in the corporate structure related to the initial public offering of PBF Logistics LP, a consolidated subsidiary of PBF Energy (refer to Note 2 “PBF Logistics LP” of our Notes to Condensed Consolidated Financial Statements).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain “forward-looking statements”, as defined in the Private Securities Litigation Reform Act of 1995, of expected future developments that involve risks and uncertainties. You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “should,” “seeks,” “approximate,” “intends,” “plans,” “estimates,” or “anticipates” or similar expressions that relate to our strategy, plans or intentions. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results.

Important factors that could cause actual results to differ materially from our expectations, which we refer to as “cautionary statements,” are disclosed under “Item 1A. Risk Factors”, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Form 10-Q and the Annual Report on Form 10-K for the year ended December 31, 2013 of PBF Energy Inc., which we refer to as our 2013 Annual Report on Form 10-K, and in our other filings with the SEC. All forward-looking information in this Quarterly Report on Form 10-Q and subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Some of the factors that we believe could affect our results include:

- supply, demand, prices and other market conditions for our products;
- the effects of competition in our markets;
- changes in currency exchange rates, interest rates and capital costs;
- adverse developments in our relationship with both our key employees and unionized employees;
- our ability to operate our businesses efficiently, manage capital expenditures and costs (including general and administrative expenses) and generate earnings and cash flow;
- our substantial indebtedness;
- our supply and inventory intermediation arrangements expose us to counterparty credit and performance risk;
- termination of our Inventory Intermediation Agreements with J. Aron could have a material adverse effect on our liquidity, as we would be required to finance our refined products inventory covered by the agreements. Additionally, we are obligated to repurchase from J. Aron all volumes of products located at the Paulsboro and Delaware City refineries' storage tanks upon termination of these agreements;
- restrictive covenants in our indebtedness that may adversely affect our operational flexibility;
- payments to the holders of PBF LLC Series A Units and PBF LLC Series B Units under our tax receivable agreement for certain tax benefits we may claim;
- our assumptions regarding payments arising under the tax receivable agreement and other arrangements relating to our organizational structure are subject to change due to various factors, including, among other factors, the timing of exchanges of PBF LLC Series A Units for shares of our Class A common stock as contemplated by the tax receivable agreement, the price of our Class A common stock at the time of such exchanges, the extent to which such exchanges are taxable, and the amount and timing of our income;
- our expectations and timing with respect to our acquisition activity and whether any acquisitions are accretive or dilutive to shareholders;

- our expectations and timing with respect to our capital improvement and turnaround projects including the development and expansion of our Delaware City crude unloading facilities and status of an air permit to transfer crude through the refinery's dock;
- the impact of disruptions to crude or feedstock supply to any of our refineries, including disruptions due to problems at PBFX or with third party logistics infrastructure or operations, including pipeline and rail transportation;
- the possibility that we might reduce or not make further dividend payments;
- the inability of our subsidiaries to freely pay dividends or make distributions to us;
- the impact of current and future laws, rulings and governmental regulations, including the implementation of rules and regulations regarding transportation of crude oil by rail;
- adverse impacts related to any change by the federal government in the restrictions on exporting U.S. crude oil including relaxing limitations on the export of certain types of crude oil or condensates or the lifting of the ban entirely;
- market risks related to the volatility in the price of Renewable Identification Numbers ("RINS") required to comply with the Renewable Fuel Standards;
- adverse impacts from changes in our regulatory environment or actions taken by environmental interest groups;
- the costs of being a public company, including Sarbanes-Oxley Act compliance;
- risk associated with the operation of PBF Logistics as a separate, publicly-traded entity;
- potential tax consequences related to our investment in PBF Logistics;
- receipt of regulatory approvals and compliance with contractual obligations required in connection with PBF Logistics; and
- the impact of the initial public offering of PBF Logistics on our relationships with our employees, customers and vendors and our credit rating and cost of funds.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q may not in fact occur. Accordingly, investors should not place undue reliance on those statements.

Our forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, including the securities laws of the United States, and we do not intend to update or revise any forward-looking statements. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

PBF ENERGY INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited, in thousands, except share and per share data)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$317,544	\$76,970
Accounts receivable	713,226	596,647
Inventories	1,711,851	1,445,517
Deferred tax asset	18,000	25,529
Prepaid expense and other current assets	83,315	55,843
Total current assets	2,843,936	2,200,506
Property, plant and equipment, net	1,822,309	1,781,589
Deferred tax assets	429,236	169,234
Marketable securities	299,996	—
Deferred charges and other assets, net	286,363	262,479
Total assets	\$5,681,840	\$4,413,808
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$339,185	\$402,293
Accrued expenses	1,497,128	1,209,881
Payable to related parties pursuant to tax receivable agreement	12,541	12,541
Current portion of long-term debt	13,009	12,029
Deferred revenue	6,134	7,766
Total current liabilities	1,867,997	1,644,510
Delaware Economic Development Authority loan	12,000	12,000
Long-term debt	1,020,637	723,547
Payable to related parties pursuant to tax receivable agreement	667,365	274,775
Other long-term liabilities	49,867	43,720
Total liabilities	3,617,866	2,698,552
Commitments and contingencies (Note 10)		
Equity:		
Class A common stock, \$0.001 par value, 1,000,000,000 shares authorized, 87,670,832 shares outstanding at June 30, 2014, 39,665,473 shares outstanding, at December 31, 2013	88	40
Class B common stock, \$0.001 par value, 1,000,000 shares authorized, 40 shares outstanding, at June 30, 2014 and December 31, 2013	—	—
Preferred stock, \$0.001 par value, 100,000,000 shares authorized, no shares outstanding, at June 30, 2014 and December 31, 2013	—	—
Additional paid in capital	1,496,456	657,499
Retained earnings	64,681	3,579
Accumulated other comprehensive loss	(12,667) (6,988

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Total PBF Energy Inc. equity	1,548,558	654,130
Noncontrolling interest	515,416	1,061,126
Total equity	2,063,974	1,715,256
Total liabilities and equity	\$5,681,840	\$4,413,808

See notes to condensed consolidated financial statements.

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PBF ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	\$5,301,709	\$4,678,293	\$10,048,152	\$9,476,141
Cost and expenses:				
Cost of sales, excluding depreciation	4,935,456	4,295,979	9,083,140	8,731,081
Operating expenses, excluding depreciation	210,722	202,583	479,621	408,599
General and administrative expenses	33,013	19,141	69,637	49,235
Loss (gain) on sale of assets	6	—	(180) —
Depreciation and amortization expense	34,662	27,563	67,877	54,093
	5,213,859	4,545,266	9,700,095	9,243,008
Income from operations	87,850	133,027	348,057	233,133
Other income (expenses):				
Change in fair value of catalyst leases	(2,338	) 6,820	(4,339	) 5,481
Interest expense, net	(26,202	) (21,708	) (51,457	) (43,319
Income before income taxes	59,310	118,139	292,261	195,295
Income tax expense	13,474	10,969	63,153	18,413
Net income	45,836	107,170	229,108	176,882
Less: net income attributable to noncontrolling interests	24,877	90,344	130,704	148,649
Net income attributable to PBF Energy Inc.	\$20,959	\$16,826	\$98,404	\$28,233
Weighted-average shares of Class A common stock outstanding				
Basic	72,439,760	26,944,055	63,354,285	25,276,137
Diluted	73,007,156	27,706,696	63,897,712	26,110,976
Net income available to Class A common stock per share:				
Basic	\$0.29	\$0.62	\$1.55	\$1.12
Diluted	\$0.29	\$0.61	\$1.54	\$1.08
Dividends per common share	\$0.30	\$0.30	\$0.60	\$0.60

See notes to condensed consolidated financial statements.

PBF ENERGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2014	2013	2014	2013	
Net income	\$45,836	\$107,170	\$229,108	\$176,882	
Other comprehensive income (loss):					
Unrealized gain (loss) on available for sale securities	56	(6) 85	(6)
Net gain (loss) on pension and other postretirement benefits	232	324	449	216	
Total other comprehensive income (loss)	288	318	534	210	
Comprehensive income	46,124	107,488	229,642	177,092	
Less: comprehensive income attributable to noncontrolling interest	24,859	90,581	130,756	148,804	
Comprehensive income attributable to PBF Energy Inc.	\$21,265	\$16,907	\$98,886	\$28,288	

See notes to condensed consolidated financial statements.

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PBF ENERGY INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited, in thousands)

	Six Months Ended	
	June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$229,108	\$176,882
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	71,437	57,353
Stock-based compensation	2,923	1,977
Change in fair value of catalyst lease obligations	4,339	(5,481)
Deferred income taxes	35,090	16,669
Non-cash change in inventory repurchase obligations	(7,973)	(17,377)
Pension and other post retirement benefit costs	10,538	8,472
Gain on disposition of property, plant and equipment	(180)	—
Changes in current assets and current liabilities:		
Accounts receivable	(116,579)	(87,556)
Inventories	(249,094)	(183,038)
Prepaid expenses and other current assets	(27,472)	(32,748)
Accounts payable	(63,108)	(132,490)
Accrued expenses	281,846	193,267
Deferred revenue	(1,632)	(26,594)
Other assets and liabilities	(3,186)	(9,537)
Net cash provided by (used in) operations	166,057	(40,201)
Cash flow from investing activities:		
Expenditures for property, plant and equipment	(125,293)	(105,084)
Expenditures for deferred turnaround costs	(39,424)	(4,551)
Expenditures for other assets	(8,171)	(3,089)
Purchase of marketable securities	(599,997)	—
Maturities of marketable securities	299,987	—
Proceeds from sale of assets	37,759	—
Net cash used in investing activities	(435,139)	(112,724)
Cash flows from financing activities:		
Proceeds from issuance of PBF Logistics LP common units, net of underwriters' discount and commissions	340,957	—
Offering costs for issuance of PBF Logistics LP common units	(5,000)	—
Distributions to PBF Energy Company LLC members	(76,705)	(121,945)
Dividend payments	(37,302)	(14,168)
Proceeds from PBFX Term Loan borrowings	300,000	—
Proceeds from revolver borrowings	395,000	160,000
Repayments of revolver borrowings	(410,000)	(65,000)
Proceeds from Rail Facility revolver borrowings	8,225	—
Payment of contingent consideration related to acquisition of Toledo refinery	—	(21,357)
Deferred financing costs and other	(5,519)	(1,259)
Net cash provided by (used in) financing activities	509,656	(63,729)

See notes to condensed consolidated financial statements.

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PBF ENERGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited, in thousands)

Net increase (decrease) in cash and cash equivalents	240,574	(216,654)
Cash and equivalents, beginning of period	76,970	285,884	
Cash and equivalents, end of period	\$317,544	\$69,230	

Supplemental cash flow disclosures

Non-cash activities:

Conversion of Delaware Economic Development Authority loan to grant	\$—	\$4,000	
Accrued construction in progress	28,302	3,300	

See notes to condensed consolidated financial statements.

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PBF ENERGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE, UNIT, PER SHARE, PER UNIT AND BARREL DATA)

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Description of the Business

PBF Energy Inc. ("PBF Energy") was formed as a Delaware corporation in 2011 and completed an initial public offering in December 2012. PBF Energy is the sole managing member of PBF Energy Company LLC ("PBF LLC"), a Delaware limited liability company, with a controlling interest in PBF LLC and its subsidiaries. PBF Energy consolidates the financial results of PBF LLC and its subsidiaries and records a noncontrolling interest in its consolidated financial statements representing the economic interests of PBF LLC's members other than PBF Energy. PBF LLC, together with its consolidated subsidiaries, owns and operates oil refineries and related facilities in North America. PBF Holding Company LLC ("PBF Holding") is a wholly-owned subsidiary of PBF LLC. PBF Finance Corporation ("PBF Finance") is a wholly-owned subsidiary of PBF Holding. Delaware City Refining Company LLC, Delaware Pipeline Company LLC, PBF Power Marketing LLC, Paulsboro Refining Company LLC, Paulsboro Natural Gas Pipeline Company LLC and Toledo Refining Company LLC are PBF LLC's principal operating subsidiaries and are all wholly-owned subsidiaries of PBF Holding. PBF LLC also holds a 50.2% limited partner interest and all of the incentive distribution rights in PBF Logistics LP ("PBFX"), a publicly traded master limited partnership (refer to Note 2 "PBF Logistics LP" of our Notes to Condensed Consolidated Financial Statements). PBF Logistics GP LLC ("PBF GP") owns the noneconomic general partner interest and serves as the general partner of PBFX and is wholly-owned by PBF LLC. PBF Energy, through its ownership of PBF LLC, consolidates the financial results of PBFX and its subsidiaries and records a noncontrolling interest in its consolidated financial statements representing the economic interests of PBFX's unit holders other than PBF LLC. Collectively, PBF Energy and its consolidated subsidiaries, including PBF LLC, PBF Holding, and PBFX are referred to hereinafter as the "Company" unless the context otherwise requires.

On January 10, 2014, PBF Energy completed a public offering of 15,000,000 shares of Class A common stock in a secondary offering (the "January 2014 secondary offering"). On March 26, 2014, PBF Energy completed another public offering of 15,000,000 shares of Class A common stock in a secondary offering (the "March 2014 secondary offering"). On June 17, 2014, PBF Energy completed a third public offering of 18,000,000 shares of Class A common stock in a secondary offering (the "June 2014 secondary offering" and collectively with the January 2014 secondary offering and the March 2014 secondary offering, the "2014 secondary offerings"). All of the shares in the 2014 secondary offerings were sold by funds affiliated with The Blackstone Group L.P., or Blackstone, and First Reserve Management, L.P., or First Reserve. In connection with the 2014 secondary offerings, Blackstone and First Reserve exchanged PBF LLC Series A Units for an equivalent number of shares of Class A common stock of PBF Energy. The holders of PBF LLC Series B Units, which include certain executive officers of PBF Energy received a portion of the proceeds of the sale of the PBF Energy Class A common stock by Blackstone and First Reserve in accordance with the amended and restated limited liability company agreement of PBF LLC. PBF Energy did not receive any proceeds from the 2014 secondary offerings.

Substantially all of the Company's operations are in the United States. Effective with the completion of PBFX's initial public offering in May 2014, the Company operates in two reportable business segments: Refining and Logistics. The Company's three oil refineries are all engaged in the refining of crude oil and other feedstocks into petroleum products, and are aggregated into the Refining segment. PBFX is a publicly traded master limited partnership that operates logistical assets such as crude oil and refined petroleum products terminals, pipelines, and storage facilities. PBFX's operations are aggregated into the Logistics segment. To generate earnings and cash flows from operations, the Company is primarily dependent upon processing crude oil and selling refined petroleum products at margins sufficient to cover fixed and variable costs and other expenses. Crude oil and refined petroleum products are commodities; and factors largely out of the Company's control can cause prices to vary over time. The potential margin volatility can have a material effect on the Company's financial position, earnings and cash flow.

PBF ENERGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE, UNIT, PER SHARE, PER UNIT AND BARREL DATA)

Basis of Presentation

The unaudited condensed consolidated financial information furnished herein reflects all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, considered necessary for a fair presentation of the financial position and the results of operations and cash flows of the Company for the periods presented. All intercompany accounts and transactions have been eliminated in consolidation. These unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2013 of PBF Energy. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to be entitled to receive in exchange for those goods or services and requires significantly enhanced revenue disclosures. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard is effective for interim and annual periods beginning after December 15, 2016 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

2. PBF LOGISTICS LP

On May 14, 2014, PBFX completed its initial public offering (the "PBFX Offering") of 15,812,500 common units (including 2,062,500 common units issued pursuant to the exercise of the underwriters' over-allotment option). Upon completion of the PBFX Offering, PBF LLC held a 50.2% limited partner interest in PBFX (consisting of 74,053 common units and 15,886,553 subordinated units) and all of PBFX's incentive distribution rights, with the remaining 49.8% limited partner interest held by public common unit holders. PBF LLC also owns indirectly a non-economic general partner interest in PBFX through its wholly-owned subsidiary, PBF GP, the general partner of PBFX. During the subordination period (as set forth in the partnership agreement of PBFX) holders of the subordinated units are not entitled to receive any distribution of available cash until the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. If PBFX does not pay distributions on the subordinated units, the subordinated units will not accrue arrearages for those unpaid distributions. Each subordinated unit will convert into one common unit at the end of the subordination period. PBFX received proceeds (after deducting underwriting discounts and structuring fees but before offering expenses) from the PBFX Offering of approximately \$340,957. PBFX used the net proceeds from the PBFX Offering (i) to distribute \$35,000 to PBF LLC to reimburse it for certain capital expenditures incurred prior to the closing of the PBFX Offering with respect to assets contributed to PBFX and to reimburse it for offering expenses it incurred on behalf of PBFX; (ii) to pay debt issuance costs of \$2,293 related to PBFX's Revolving Credit Facility and Term Loan (refer to Note 7 "Credit Facilities" of our Notes to Condensed Consolidated Financial Statements); (iii) to purchase \$298,664 in U.S. Treasury securities which will be used to fund anticipated capital expenditures; and (iv) to retain approximately \$5,000 for general partnership purposes.

PBF ENERGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE, UNIT, PER SHARE, PER UNIT AND BARREL DATA)

PBFX is a fee-based, growth-oriented, Delaware master limited partnership formed by PBF Energy to own or lease, operate, develop and acquire crude oil and refined petroleum products terminals, pipelines, storage facilities and similar logistics assets. PBFX receives, handles and transfers crude oil from sources located throughout the United States and Canada for PBF Energy in support of its three refineries. PBFX's initial assets consist of a light crude oil rail unloading terminal at the Delaware City refinery that also services the Paulsboro refinery (which we refer to as the "Delaware City Rail Terminal"), and a crude oil truck unloading terminal at the Toledo refinery (which we refer to as the "Toledo Truck Terminal") that are integral components of the crude oil delivery operations at all three of PBF Energy's refineries. All of PBFX's revenue is derived from long-term, fee-based commercial agreements with subsidiaries of PBF Energy, which include minimum volume commitments, for receiving, handling and transferring crude oil. PBF Energy also has agreements with PBFX that establish fees for certain general and administrative services and operational and maintenance services provided by PBF Energy to PBFX. These transactions are eliminated by PBF Energy in consolidation.

PBFX, a variable interest entity, is consolidated by PBF Energy through its ownership of PBF LLC. PBF LLC through its ownership of PBF GP, has the sole ability to direct the activities of PBFX that most significantly impact its economic performance. PBF LLC is considered to be the primary beneficiary for accounting purposes.

3. NONCONTROLLING INTEREST OF PBF ENERGY AND PBF LOGISTICS LP

Noncontrolling Interest in PBF LLC

PBF Energy is the sole managing member of, and has a controlling interest in, PBF LLC. As the sole managing member of PBF LLC, PBF Energy operates and controls all of the business and affairs of PBF LLC and its subsidiaries. As of December 31, 2013, PBF Energy's equity interest in PBF LLC represented approximately 40.9% of the outstanding interests. In connection with the 2014 secondary offerings, Blackstone and First Reserve exchanged a total of 48,000,000 Series A Units of PBF LLC for an equivalent number of shares of Class A common stock of PBF Energy, which increased PBF Energy's interest in PBF LLC to approximately 90.5% as of June 30, 2014.

PBF Energy consolidates the financial results of PBF LLC and its subsidiaries, and records a noncontrolling interest for the economic interest in PBF Energy held by the members of PBF LLC other than PBF Energy. Noncontrolling interest on the consolidated statements of operations includes the portion of net income or loss attributable to the economic interest in PBF Energy held by the members of PBF LLC other than PBF Energy. Noncontrolling interest on the consolidated balance sheets includes the portion of net assets of PBF Energy attributable to the members of PBF LLC other than PBF Energy.

The noncontrolling interest ownership percentage of PBF LLC as of June 30, 2014, each of the completion dates of the 2014 secondary offerings, and December 31, 2013 is calculated as follows:

PBF ENERGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE, UNIT, PER SHARE, PER UNIT AND BARREL DATA)

	Held by members of PBF LLC other than PBF Energy	Held by PBF Energy	Total *		
December 31, 2013	57,201,674	39,665,473	96,867,147		
	59.1	% 40.9	% 100.0		%
January 10, 2014	42,201,674	54,665,473	96,867,147		
	43.6	% 56.4	% 100.0		%
March 26, 2014	27,213,374	69,670,192	96,883,566		
	28.1	% 71.9	% 100.0		%
June 17, 2014	9,213,374	87,670,832	96,884,206		
	9.5	% 90.5	% 100.0		%
June 30, 2014	9,219,874	87,670,832	96,890,706		
	9.5	% 90.5	% 100.0		%

* Assumes all of the holders of PBF LLC Series A Units exchange their PBF LLC Series A Units for shares of PBF Energy's Class A common stock on a one-for-one basis.

Noncontrolling Interest in PBFX

PBF LLC holds a 50.2% limited partner interest in PBFX and owns all of PBFX's incentive distribution rights, with the remaining 49.8% limited partner interest owned by public common unit holders as of June 30, 2014. PBF LLC is also the sole member of PBF GP, the general partner of PBFX.

PBF Energy, through its ownership of PBF LLC, consolidates the financial results of PBFX, and records a noncontrolling interest for the economic interest in PBFX held by the public common unit holders. Noncontrolling interest on the consolidated statements of operations includes the portion of net income or loss attributable to the economic interest in PBFX held by the public common unit holders of PBFX other than PBF Energy (through its ownership in PBF LLC). Noncontrolling interest on the consolidated balance sheets includes the portion of net assets of PBFX attributable to the public common unit holders of PBFX.

The noncontrolling interest ownership percentage of PBFX as of June 30, 2014 and May 14, 2014 (the closing of the initial public offering), is calculated as follows:

	Units of PBFX Held by the Public	Units of PBFX Held by PBF LLC (Including Subordinated Units)	Total		
May 14, 2014	15,812,500	15,960,606	31,773,106		
	49.8	% 50.2	% 100.0		%
June 30, 2014	15,812,500	15,960,606	31,773,106		
	49.8	% 50.2	% 100.0		%

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The following table summarizes the changes in equity for the controlling and noncontrolling interests of PBF Energy for the six months ended June 30, 2014:

	PBF Energy Inc. Equity	Noncontrolling Interest in PBF LLC	Noncontrolling Interest in PBFX	Total Equity
Balance at January 1, 2014	\$654,130	\$1,061,126	\$—	\$1,715,256
Comprehensive income	98,886	128,065	2,691	229,642
Dividends and distributions	(37,302)	(76,705)	—	(114,007)
Record deferred tax asset and liabilities and tax receivable agreement associated with secondary offerings	(105,783)	—	—	(105,783)
Record allocation of noncontrolling interest upon completion of secondary offerings	936,229	(936,229)	—	—
Stock-based compensation	2,398	330	195	2,923
Record noncontrolling interest upon completion of the PBFX Offering	—	—	335,957	335,957
Exercise of PBF LLC options and warrants, net	—	(14)	—	(14)
Balance at June 30, 2014	\$1,548,558	\$176,573	\$338,843	\$2,063,974

4. INVENTORIES

Inventories consisted of the following:

June 30, 2014

	Titled Inventory	Inventory Supply and Offtake Arrangements	Total
Crude oil and feedstocks	\$739,095	\$101,756	\$840,851
Refined products and blendstocks	485,126	350,481	835,607
Warehouse stock and other	35,393	—	35,393
	\$1,259,614	\$452,237	\$1,711,851

December 31, 2013

	Titled Inventory	Inventory Supply and Offtake Arrangements	Total
Crude oil and feedstocks	\$518,599	\$89,837	\$608,436
Refined products and blendstocks	425,033	378,286	803,319
Warehouse stock and other	33,762	—	33,762
	\$977,394	\$468,123	\$1,445,517

Inventory under inventory supply and offtake arrangements includes certain crude oil stored at the Company's Delaware City refinery's storage facilities that the Company will purchase as it is consumed in connection with its

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crude supply agreement; and light finished products sold to counterparties in connection with the intermediation agreements and stored in the Paulsboro and Delaware City refineries' storage facilities.

At June 30, 2014 and December 31, 2013, the replacement value of inventories exceeded the LIFO carrying value by approximately \$133,957 and \$78,407, respectively.

5. DEFERRED CHARGES AND OTHER ASSETS, NET

Deferred charges and other assets, net consisted of the following:

	June 30, 2014	December 31, 2013
Deferred turnaround costs, net	\$138,212	\$119,383
Catalyst	91,557	88,964
Deferred financing costs, net	27,487	26,541
Restricted cash	13,617	12,117
Linefill	9,667	9,636
Intangible assets, net	492	653
Other	5,331	5,185
	\$286,363	\$262,479

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6. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	June 30, 2014	December 31, 2013
Inventory-related accruals	\$859,836	\$533,012
Inventory supply and offtake arrangements	414,266	454,893
Accrued transportation costs	55,656	29,762
Excise and sales tax payable	35,605	42,814
Accrued salaries and benefits	31,300	10,799
Accrued construction in progress	28,302	33,747
Accrued interest	23,281	22,570
Accrued utilities	16,629	25,959
Customer deposits	11,150	23,621
Renewable energy credit obligations	3,946	15,955
Other	17,157	16,749
	\$1,497,128	\$1,209,881

The Company has the obligation to repurchase certain intermediates and finished products that are held in the Company's refinery storage tanks in accordance with the Inventory Intermediation Agreements with J. Aron. A liability included in Inventory supply and offtake arrangements is recorded at market price for the J. Aron owned inventory held in the Company's storage tanks under the Inventory Intermediation Agreements, with any change in the market price being recorded in cost of sales.

Prior to July 1, 2013, the Company had the obligation to repurchase certain intermediates and lube products under its products offtake agreements with Morgan Stanley Capital Group Inc. ("MSCG") that were held in the Company's refinery storage tanks in Delaware City and Paulsboro. These offtake agreements with MSCG terminated in July 2013. A liability included in Inventory supply and offtake arrangements was recorded at market price for the volumes held in storage consistent with the terms of the offtake agreements with any change in the market price recorded in cost of sales. The liability represented the amount the Company expected to pay to repurchase the volumes held in storage. The Company recorded a non-cash benefit of \$4,344 and \$20,248 related to this liability for the three and six months ended June 30, 2013, respectively.

The Company is subject to obligations to purchase Renewable Identification Numbers ("RINs") required to comply with the Renewable Fuels Standard. The Company's overall RINs obligation is based on a percentage of domestic shipments of on-road fuels as established by the Environmental Protection Agency ("EPA"). To the degree the Company is unable to blend the required amount of biofuels to satisfy our RINs obligation, RINs must be purchased on the open market to avoid penalties and fines. The Company records its RINs obligation on a net basis in Accrued expenses when its RINs liability is greater than the amount of RINs earned and purchased in a given period and in Prepaid expenses and other current assets when the amount of RINs earned and purchased is greater than the RINs liability.

7. CREDIT FACILITIES

PBFX Credit Facilities

On May 14, 2014, in connection with the closing of the PBFX Offering, PBFX entered into agreements for a five-year, \$275,000 senior secured revolving credit facility (the "PBFX Revolving Credit Facility") and a three-year, \$300,000 term loan facility (the "PBFX Term Loan"), each with Wells Fargo Bank, National Association, as administrative agent, and a syndicate of lenders.

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The PBFX Revolving Credit Facility is available to fund working capital, acquisitions, distributions and capital expenditures and for other general partnership purposes. PBFX also has the ability to increase the maximum amount of the PBFX Revolving Credit Facility by an aggregate amount of up to \$325,000, to a total facility size of \$600,000, subject to receiving increased commitments from lenders or other financial institutions and satisfaction of certain conditions. The PBFX Revolving Credit Facility includes a \$25,000 sublimit for standby letters of credit and a \$25,000 sublimit for swingline loans. Obligations under the PBFX Revolving Credit Facility and certain cash management and hedging obligations designated by PBFX are guaranteed by its restricted subsidiaries, and are secured by a first priority lien on PBFX's assets (including PBFX's equity interests in Delaware City Terminaling Company LLC) and those of PBFX's restricted subsidiaries other than excluded assets and a guaranty of collection from PBF LLC. The maturity date of the PBFX Revolving Credit Facility may be extended for one year on up to two occasions, subject to certain customary terms and conditions. Borrowings under the PBFX Revolving Credit Facility bear interest at either a base rate plus an applicable margin ranging from 0.75% to 1.75%, or at LIBOR plus an applicable margin ranging from 1.75% to 2.75%. The applicable margin will vary based upon PBFX's Consolidated Total Leverage Ratio, as defined in the PBFX Revolving Credit Facility.

The PBFX Term Loan was used to fund distributions to PBF LLC and is guaranteed by a guaranty of collection from PBF LLC and secured at all times by cash, U.S. Treasury or other investment grade securities in an amount equal to or greater than the outstanding principal amount of the PBFX Term Loan (refer to Note 8 "Marketable Securities" of our Notes to Condensed Consolidated Financial Statements). PBFX purchased additional collateral securities subsequent to June 30, 2014 such that the total amount of collateral securities was in excess of the outstanding principal of the PBFX Term Loan. Borrowings under the PBFX Term Loan bear interest either at Base Rate (as defined in the PBFX Term Loan), or at LIBOR plus an applicable margin equal to 0.25%.

The PBFX Revolving Credit Facility contains affirmative and negative covenants customary for revolving credit facilities of this nature that, among other things, limit or restrict PBFX's ability and the ability of its restricted subsidiaries to incur or guarantee debt, incur liens, make investments, make restricted payments, amend material contracts, engage in business activities, engage in mergers, consolidations and other organizational changes, sell, transfer or otherwise dispose of assets or enter into burdensome agreements or enter into transactions with affiliates on terms that are not arm's length. The PBFX Term Loan contains affirmative and negative covenants customary for term loans of this nature that, among other things, limit PBFX's use of the proceeds and restrict PBFX's ability to incur liens and enter into burdensome agreements.

Additionally, PBFX is required to maintain the following financial ratios, each tested on a quarterly basis for the immediately preceding four quarter period then ended (or such shorter period as shall apply, the "Measurement Period"):

- (a) until such time as PBFX obtains an investment grade credit rating, Consolidated Interest Coverage Ratio (as defined in the PBFX Revolving Credit Facility), of at least 2.50 to 1.00, (b) Consolidated Total Leverage Ratio of not greater than 4.00 to 1.00 (or 4.50 to 1.00 at any time after (i) PBFX has issued at least \$100,000 of unsecured notes and (ii) in addition (and without prejudice) to clause (i), upon the consummation of a material permitted acquisition (as defined in the PBFX Revolving Credit Facility) and for two-hundred seventy days immediately thereafter (an "Increase Period"), if elected by PBFX by written notice to the administrative agent given on or prior to the date of such acquisition, the maximum permitted ratio shall be increased by 0.50 to 1.00 above the otherwise relevant level (the "Step-Up") provided that Increase Periods may not be successive unless the ratio has been complied with for at least one Measurement Period ending after such Increase Period (i.e., without giving effect to the Step-Up)) and (c) after PBFX has issued at least \$100,000 of unsecured notes, Consolidated Senior Secured Leverage Ratio (as defined in the credit agreement) of not greater than 3.50 to 1.00. The PBFX Revolving Credit Facility generally prohibits PBFX from making cash distributions (subject to certain exceptions) except so long as no default or event of default exists or would be caused thereby, and only to the extent permitted by PBFX's partnership agreement, PBFX may make cash distributions to unitholders up to the amount of PBFX's Available Cash (as defined in the Partnership Agreement). The PBFX Revolving Credit Facility and PBFX Term Loan contain events of default customary for transactions of their nature, including, but not limited to (and subject to grace periods in certain circumstances), the failure to pay any

principal, interest or fees when due, failure to perform or observe any covenant contained in the PBFX

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Revolving Credit Facility or related documentation, any representation or warranty made in the agreements or related documentation being untrue in any material respect when made, default under certain material debt agreements, commencement of bankruptcy or other insolvency proceedings, certain changes in PBFX's ownership or the ownership or board composition of PBF GP and material judgments or orders. Upon the occurrence and during the continuation of an event of default under the agreements, the lenders may, among other things, terminate their commitments, declare any outstanding loans to be immediately due and payable and/or exercise remedies against PBFX and the collateral as may be available to the lenders under the agreements and related documentation or applicable law. At June 30, 2014, there were no borrowings outstanding under the PBFX Revolving Credit Facility and \$300,000 outstanding under the PBFX Term Loan.

PBF Rail Revolving Credit Facility

Effective March 25, 2014, PBF Rail Logistics Company LLC ("PBF Rail"), an indirect wholly-owned subsidiary of PBF Holding, entered into a \$250,000 secured revolving credit agreement (the "Rail Facility") with a consortium of eleven lenders, including Credit Agricole Corporate & Investment Bank ("CA-CIB") as Administrative Agent. The primary purpose of the Rail Facility is to fund the acquisition by PBF Rail of approximately two thousand coiled and insulated crude tank cars and approximately one thousand non-coiled and non-insulated general purpose crude tank cars (the "Eligible Railcars") before December 2015.

The amount advanced under the Rail Facility will equal 70% of the lesser of the aggregate Appraised Value of the Eligible Railcars, or the aggregate Purchase Price of such Eligible Railcars, as these terms are defined in the credit agreement. On the first anniversary of the closing, the advance rate will adjust automatically to 65%. The Rail Facility matures on March 31, 2016 and all outstanding advances must be repaid at that time. At any time prior to maturity PBF Rail may repay and re-borrow any advances without premium or penalty.

At PBF Rail's election, advances will bear interest at a rate per annum equal to one month LIBOR plus the Facility Margin for Eurodollar Loans, or the Corporate Base Rate plus the Facility Margin for Base Rate Loans (the Corporate Base Rate is equal to the higher of the prime rate as determined by CA-CIB, the Federal Funds Rate plus 50 basis points, or one month Libor plus 100 basis points), all as defined in the credit agreement. In addition, there is a commitment fee on the unused portion. Interest and fees are payable monthly.

The lenders received a perfected, first priority security interest in all of PBF Rail assets, including but not limited to (i) the Eligible Railcars, (ii) all railcar marks and other intangibles, (iii) the rights of PBF Rail under the Transportation Services Agreement ("TSA") entered into between PBF Rail and PBF Holding, (iv) the accounts of PBF Rail, and (v) proceeds from the sale or other disposition of the Eligible Railcars, including insurance proceeds. In addition, the lenders received a pledge of the membership interest of PBF Rail held by PBF Transportation Company LLC, a wholly-owned subsidiary of PBF Holding. The obligations of PBF Holding under the TSA are guaranteed by each of Delaware City Refining Company LLC, Paulsboro Refining Company LLC, and Toledo Refining Company LLC. At June 30, 2014, there was \$8,225 outstanding under the Rail Facility.

8. MARKETABLE SECURITIES

Concurrent with the PBFX Offering, PBFX used \$298,664 of the proceeds received to purchase U.S. Treasury securities. These securities are used as collateral to secure the PBFX Term Loan. PBFX anticipates holding the securities for an indefinite amount of time (the securities will be rolled over as they mature). As necessary and at the discretion of PBFX, these securities are expected to be liquidated and the proceeds used to fund future capital expenditures. The marketable securities are classified into the following reporting categories: held-to-maturity, trading or available-for-sale securities. While PBFX does not routinely sell marketable securities prior to their scheduled maturity dates, some of PBFX's investments may be held and restricted for the purpose of funding future capital expenditures and acquisitions, so these investments are classified as available-for-sale marketable securities

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as they may occasionally be sold prior to their scheduled maturity dates due to the unexpected timing of cash needs. The carrying value of these marketable securities approximates fair value and are measured using Level 1 inputs. The maturities of the marketable securities range from one to three months and are classified on the balance sheet in non-current assets.

The gross unrecognized holding gains and losses as of June 30, 2014 were not material. The Company did not record any net realized gains or losses from the sale of marketable securities for the three and six months ended June 30, 2014.

9. INCOME TAXES

PBF Energy files federal and applicable state corporate income tax returns and recognizes income taxes on its pre-tax income, which to date has consisted solely of its share of PBF LLC's pre-tax income (approximately 40.9% prior to the January 2014 secondary offering, approximately 56.4% prior to the March 2014 secondary offering, approximately 71.9% prior to the June 2014 secondary offering and approximately 90.5% subsequent to the June 2014 secondary offering). PBF LLC is organized as a limited liability company and PBFX is a master limited partnership, both of which are treated as "flow-through" entities for federal income tax purposes and therefore are not subject to income taxes. As a result, PBF Energy's condensed consolidated financial statements do not reflect any benefit or provision for income taxes on the pre-tax income or loss attributable to the noncontrolling interests in PBF LLC or PBFX.

The income tax provision in the PBF Energy condensed consolidated financial statements of operations consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Current tax expense	\$11,344	\$1,744	\$28,063	\$1,744
Deferred tax expense	2,130	9,225	35,090	16,669
Total tax expense	\$13,474	\$10,969	\$63,153	\$18,413

Income tax expense is based on income before taxes attributable to PBF Energy and excludes income before taxes attributable to noncontrolling interests as such interests are not subject to income taxes. The difference between the Company's income tax expense and the income tax provision computed by applying the United States statutory rate and the difference between the Company's effective income tax rate and the United States statutory rate are reconciled below:

	Three Months Ended June 30,		Three Months Ended June 30,		
	2014	2013	%	2013	%
Provision at Federal statutory rate	\$11,947	35.0	%	\$9,715	35.0
Increase (decrease) attributable to flow-through of certain tax adjustments:					
State income taxes (net federal income tax)	1,779	5.2	%	1,214	4.4
Non deductible/nontaxable items	124	0.2	%	30	0.1
Other	(376)	(1.2))%	10	—
Total	\$13,474	39.2	%	\$10,969	39.5

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	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013			
Provision at Federal statutory rate	\$56,440	35.0	%	\$16,313	35.0	%
Increase (decrease) attributable to flow-through of certain tax adjustments:						
State income taxes (net federal income tax)	8,402	5.2	%	2,032	4.4	%
Non deductible/nontaxable items	302	0.2	%	48	0.1	%
Other	(1,991	) (1.2	)%	20	—	%
Total	\$63,153	39.2	%	\$18,413	39.5	%

The Company's effective income tax rate for the three and six months ended June 30, 2014, including the impact of income attributable to noncontrolling interests of \$24,877 and \$130,704, respectively, was 22.7% and 21.6%, respectively. The Company's effective income tax rate for the three and six months ended June 30, 2013, including the impact of income attributable to noncontrolling interests of \$90,344 and \$148,649, respectively, was 9.3% and 9.4%, respectively.

PBF Energy has determined there are no material uncertain tax positions as of June 30, 2014.

10. COMMITMENTS AND CONTINGENCIES

Environmental Matters

The Company's refineries are subject to extensive and frequently changing federal, state and local laws and regulations, including, but not limited to, those relating to the discharge of materials into the environment or that otherwise relate to the protection of the environment, waste management and the characteristics and the compositions of fuels. Compliance with existing and anticipated laws and regulations can increase the overall cost of operating the refineries, including remediation, operating costs and capital costs to construct, maintain and upgrade equipment and facilities.

In connection with the Paulsboro refinery acquisition, the Company assumed certain environmental remediation obligations. The environmental liability of \$11,149 recorded as of June 30, 2014 (\$9,869 as of December 31, 2013) represents the present value of expected future costs discounted at a rate of 8%. The current portion of the environmental liability is recorded in accrued expenses and the non-current portion is recorded in other long-term liabilities. A trust fund related to this liability in the amount of \$12,117, acquired in the Paulsboro acquisition, is recorded as restricted cash in Deferred charges and other assets, net as of June 30, 2014 and December 31, 2013. In connection with the acquisition of the Delaware City assets, Valero Energy Corporation ("Valero") remains responsible for certain pre-acquisition environmental obligations up to \$20,000 and the predecessor to Valero in ownership of the refinery retains other historical obligations.

In connection with the acquisition of the Delaware City assets and the Paulsboro refinery, the Company and Valero purchased ten year, \$75,000 environmental insurance policies to insure against unknown environmental liabilities at each site. In connection with the Toledo refinery acquisition, Sunoco, Inc. (R&M) ("Sunoco") remains responsible for environmental remediation for conditions that existed on the closing date for twenty years from March 1, 2011.

In 2010, New York State adopted a Low-Sulfur Heating Oil mandate that, beginning July 1, 2012, requires all heating oil sold in New York State to contain no more than 15 parts per million ("PPM") sulfur. As of July 1, 2014, five additional Northeastern states began requiring heating oils with 500 PPM or less sulfur. All of the heating oil we currently produce meets these specifications. The mandate and other requirements do not currently have a material impact on the Company's financial position, results of operations or cash flows.

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The EPA issued the final Tier 3 Gasoline standards on March 3, 2014 under the Clean Air Act. This final rule establishes more stringent vehicle emission standards and further reduces the sulfur content of gasoline starting in January of 2017. The new standard is set at 10 PPM sulfur in gasoline on an annual average basis starting January 1, 2017, with a credit trading program to provide compliance flexibility. The EPA responded to industry comments on the proposed rule and maintained the per gallon sulfur cap on gasoline at the existing 80 PPM cap. The standards set by the new rule are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The EPA was required to release the final annual standards for the Reformulated Fuels Standard ("RFS") for 2014 no later than Nov 29, 2013. The EPA did not meet this requirement but did release the proposed standards for 2014. In the proposed standards the EPA responded to the industry discussion around the apparent infeasibility of compliance in 2014 if the EPA issued standards following the requirements of the Energy Independence and Security Act. The EPA indicated it would use its waiver authority under the RFS 2 program ("RFS 2") and set standards for renewable fuel recognizing the practical constraints in requiring ethanol blending into gasoline above 10%. The EPA also indicated it would reduce the advanced biofuel requirement and hold constant the biomass based diesel requirements at the 2013 level. The cellulosic requirement would be increased over the 2013 volume and, as has been the case in each of the prior years, the EPA would likely be overstating the actual production. Renewable fuel groups have been vocal in advocating changes to the proposed standards in general due to the lower volumes mandated. The EPA is targeting to finalize the 2014 RFS 2 standards by the fall of 2014. Depending on the actual requirements of the final standards when they are issued, the final standards may have a material impact on the Company's cost of compliance with RFS 2.

On June 1, 2012, the EPA issued final amendments to the New Source Performance Standards ("NSPS") for petroleum refineries, including standards for emissions of nitrogen oxides from process heaters and work practice standards and monitoring requirements for flares. The Company has evaluated the impact of the regulation and amended standards on its refinery operations and currently does not expect the cost to comply by July 1, 2015 with the amended NSPS to be material.

In addition, the EPA proposed a Final Rule to the Clean Water Act ("CWA") Section 316(b) regarding cooling water intake structures. The next phase will include requirements for petroleum refineries. The rule was shared with the public in May 2014, but has not yet been published in the Federal Register. The purpose of this rule is to prevent fish from being trapped against cooling water intake screens (impingement) and to prevent fish from being drawn through cooling water systems (entrainment). Facilities will be required to implement Best Technology Available (BTA) as soon as possible, but gives state agencies the discretion to establish implementation time lines. The Company continues to evaluate the impact of this regulation, and at this time does not anticipate it having a material impact on the Company's financial position, results of operations or cash flows.

On June 14, 2013, two administrative appeals were filed by the Sierra Club and Delaware Audubon regarding a permit Delaware City Refining Company LLC ("DCR") obtained to allow loading of crude oil onto barges. The appeals allege that both the loading of crude oil onto barges and the operation of the Delaware City rail unloading terminal violate Delaware's Coastal Zone Act. The first appeal is Number 2013-1 before the State Coastal Zone Industrial Control Board (the "CZ Board"), and the second appeal is before the Environmental Appeals Board and appeals Secretary's Order No. 2013-A-0020. The CZ Board held a hearing on the first appeal on July 16, 2013, and ruled in favor of DCR and the State of Delaware and dismissed Appellants' appeal for lack of standing. Sierra Club and Delaware Audubon have appealed that decision to the Delaware Superior Court, New Castle County, Case No. N13A-09-001 ALR, and DCR and the State have filed cross-appeals. Briefs have been filed in this appeal and the court issued a stay until briefs are filed in the second appeal. A hearing on the second appeal before the Environmental Appeals Board (the "EAB"), case no. 2013-06, was held on January 13, 2014, and the EAB ruled in favor of DCR and the State and dismissed the appeal for lack of jurisdiction. The Appellants filed a Notice of Appeal with the Superior Court appealing the EAB's decision and briefs are scheduled to be filed in the third quarter of 2014. If the Appellants in one or both of these matters ultimately prevail, the outcome may have a material adverse effect on our financial condition,

results of operations or cash flows.

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The Company is also currently subject to certain other existing environmental claims and proceedings. The Company believes that there is only a remote possibility that future costs related to any of these other known contingent liability exposures would have a material impact on its financial position, results of operations or cash flows.

PBF LLC Limited Liability Company Agreement

The holders of limited liability company interests in PBF LLC, including PBF Energy, generally have to include for purposes of calculating their U.S. federal, state and local income taxes their share of any taxable income of PBF LLC, regardless of whether such holders receive cash distributions from PBF LLC. PBF Energy ultimately may not receive cash distributions from PBF LLC equal to its share of such taxable income or even equal to the actual tax due with respect to that income. For example, PBF LLC is required to include in taxable income PBF LLC's allocable share of PBFX's taxable income and gains (such share to be determined pursuant to the partnership agreement of PBFX), regardless of the amount of cash distributions received by PBF LLC from PBFX, and such taxable income and gains will flow-through to PBF Energy to the extent of its allocable share of the taxable income of PBF LLC. As a result, at certain times, the amount of cash otherwise ultimately available to PBF Energy on account of its indirect interest in PBFX may not be sufficient for PBF Energy to pay the amount of taxes it will owe on account of its indirect interests in PBFX.

Taxable income of PBF LLC generally is allocated to the holders of PBF LLC units (including PBF Energy) pro rata in accordance with their respective share of the net profits and net losses of PBF LLC. In general, PBF LLC is required to make periodic tax distributions to the members of PBF LLC, including PBF Energy, pro rata in accordance with their respective percentage interests for such period (as determined under the amended and restated limited liability company agreement of PBF LLC), subject to available cash and applicable law and contractual restrictions (including pursuant to our debt instruments) and based on certain assumptions. Generally, these tax distributions are required to be in an amount equal to our estimate of the taxable income of PBF LLC for the year multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses). If, with respect to any given calendar year, the aggregate periodic tax distributions were less than the actual taxable income of PBF LLC multiplied by the assumed tax rate, PBF LLC is required to make a "true up" tax distribution, no later than March 15 of the following year, equal to such difference, subject to the available cash and borrowings of PBF LLC. PBF LLC obtains funding to pay its tax distributions by causing the Company to distribute cash to PBF LLC and from distributions it receives from PBFX.

Tax Receivable Agreement

PBF Energy entered into a tax receivable agreement with the PBF LLC Series A and PBF LLC Series B Unit holders (the "Tax Receivable Agreement") that provides for the payment by PBF Energy to such persons of an amount equal to 85% of the amount of the benefits, if any, that PBF Energy is deemed to realize as a result of (i) increases in tax basis, as described below, and (ii) certain other tax benefits related to entering into the Tax Receivable Agreement, including tax benefits attributable to payments under the Tax Receivable Agreement. For purposes of the Tax Receivable Agreement, the benefits deemed realized by PBF Energy will be computed by comparing the actual income tax liability of PBF Energy (calculated with certain assumptions) to the amount of such taxes that PBF Energy would have been required to pay had there been no increase to the tax basis of the assets of PBF LLC as a result of purchases or exchanges of PBF LLC Series A Units for shares of PBF Energy's Class A common stock and had PBF Energy not entered into the Tax Receivable Agreement. The term of the Tax Receivable Agreement will continue until all such tax benefits have been utilized or expired unless: (i) PBF Energy exercises its right to terminate the Tax Receivable Agreement, (ii) PBF Energy breaches any of its material obligations under the Tax Receivable Agreement or (iii) certain changes of control occur, in which case all obligations under the Tax Receivable Agreement will generally be accelerated and due as calculated under certain assumptions.

The payment obligations under the Tax Receivable Agreement are obligations of PBF Energy and not of PBF LLC, PBF Holding or PBFX. In general, PBF Energy expects to obtain funding for these annual payments from PBF

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LLC, primarily through tax distributions, which it makes on a pro-rata basis to its owners. Such owners include PBF Energy, which holds a 90.5% interest in PBF LLC as of June 30, 2014 (40.9% as of December 31, 2013). PBF LLC obtains funding to pay its tax distributions by causing the Company to distribute cash to PBF LLC and from distributions it receives from PBFX.

As of June 30, 2014, the Company has recognized a liability for the tax receivable agreement of \$679,906 (\$287,316 as of December 31, 2013) reflecting the estimate of the undiscounted amounts that the Company expects to pay under the agreement.

11. DIVIDENDS AND DISTRIBUTIONS

With respect to dividends and distributions paid during the six months ended June 30, 2014, PBF Holding paid \$218,782 in distributions to PBF LLC. PBF LLC used \$58,130 of this amount in total to make non-tax distributions of \$0.30 per unit to its members, of which \$37,302 was distributed to PBF Energy and the balance was distributed to its other members on May 29, 2014. PBF Energy used this \$37,302 to pay cash dividends of \$0.30 per share of Class A common stock on March 14, 2014 and May 29, 2014. PBF LLC used the remaining net \$160,652, from PBF Holding's distribution to make tax distributions to its members, including PBF Energy, during the six months ended June 30, 2014.

12. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost related to the Company's defined benefit plans consisted of the following:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Pension Benefits				
Components of net periodic benefit cost:				
Service cost	\$4,851	\$3,699	\$9,142	\$7,397
Interest cost	601	248	1,171	496
Expected return on plan assets	(539	) (138	) (1,063	) (276
Amortization of prior service costs	10	3	12	5
Amortization of loss	258	105	480	210
Net periodic benefit cost	\$5,181	\$3,917	\$9,742	\$7,832

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Post Retirement Medical Plan				
Components of net periodic benefit cost:				
Service cost	\$300	\$181	\$478	\$363
Interest cost	135	84	228	167
Amortization of prior service costs	75	—	55	—
Amortization of gain	1	—	(4) —
Net periodic benefit cost	\$511	\$265	\$757	\$530

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13. FAIR VALUE MEASUREMENTS

The tables below present information about the Company's financial assets and liabilities measured and recorded at fair value on a recurring basis and indicate the fair value hierarchy of the inputs utilized to determine the fair values as of June 30, 2014 and December 31, 2013.

We have elected to offset the fair value amounts recognized for multiple derivative contracts executed with the same counterparty; however, fair value amounts by hierarchy level are presented on a gross basis in the tables below. We have posted cash margin with various counterparties to support hedging and trading activities. The cash margin posted is required by counterparties as collateral deposits and cannot be offset against the fair value of open contracts except in the event of default. We have no derivative contracts that are subject to master netting arrangements that are reflected gross on the balance sheet.

	As of June 30, 2014			Total Gross Fair Value	Effect of Counter-party Netting	Net Carrying Value on Balance Sheet
	Fair Value Hierarchy					
	Level 1	Level 2	Level 3			
Assets:						
Money market funds	\$5,546	\$—	\$—	\$5,546	N/A	\$5,546
Marketable securities	299,996	—	—	299,996	N/A	299,996
Non-qualified pension plan assets	5,047	—	—	5,047	N/A	5,047
Commodity contracts	15,017	15,971	2,827	33,815	(12,628)	21,187
Derivatives included with intermediation agreement obligations	—	15,059	—	15,059	—	15,059
Liabilities:						
Catalyst lease obligations	—	57,429	—	57,429	N/A	57,429
Commodity contracts	220	12,845	138	13,203	(12,628)	575
Derivatives included with inventory supply arrangement obligations	—	1,247	—	1,247	—	1,247
	As of December 31, 2013					
	Fair Value Hierarchy					
	Level 1	Level 2	Level 3			Total
Assets:						
Money market funds	\$5,857	\$—	\$—			\$5,857
Non-qualified pension plan assets	4,905	—	—			4,905
Commodity contracts	4,252	6,681	—			10,933
Derivatives included with inventory intermediation agreement obligations	—	6,016	—			6,016
Liabilities:						
Commodity contracts	—	6,989	23,365			30,354
Catalyst lease obligations	—	53,089	—			53,089
Derivatives included with inventory supply	—	177	—			177

arrangement obligations

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The valuation methods used to measure financial instruments at fair value are as follows:

• Money market funds categorized in Level 1 of the fair value hierarchy are measured at fair value based on quoted market prices and included within cash and cash equivalents.

• Marketable securities, consisting primarily of US Treasury securities, categorized in Level 1 of the fair value hierarchy are measured at fair value based on quoted market prices.

• Non-qualified pension plan assets categorized in Level 1 of the fair value hierarchy are measured at fair value using a market approach based on published net asset values of mutual funds and included within Deferred charges and other assets, net.

• The commodity contracts categorized in Level 1 of the fair value hierarchy are measured at fair value based on quoted prices in an active market. The commodity contracts categorized in Level 2 of the fair value hierarchy are measured at fair value using a market approach based upon future commodity prices for similar instruments quoted in active markets.

• The commodity contracts categorized in Level 3 of the fair value hierarchy consist of commodity price swap contracts that relate to forecasted purchases of crude oil for which quoted forward market prices are not readily available due to market illiquidity. The forward price used to value these swaps was derived using broker quotes, prices from other third party sources and other available market based data.

• The derivatives included with inventory supply arrangement obligations, derivatives included with inventory intermediation agreement obligations and the catalyst lease obligations are categorized in Level 2 of the fair value hierarchy and are measured at fair value using a market approach based upon commodity prices for similar instruments quoted in active markets.

The table below summarizes the changes in fair value measurements categorized in Level 3 of the fair value hierarchy:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Balance at beginning of period	\$(3,751	) \$21,358	\$(23,365	) \$21,358
Purchases	—	—	—	—
Settlements	4,972	(21,358	) 3,667	(21,358
Unrealized gain included in earnings	1,468	—	22,387	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance at end of period	\$2,689	\$—	\$2,689	\$—

There were no transfers between levels during the three and six months ended June 30, 2014 and 2013, respectively.

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Fair value of debt

The table below summarizes the fair value and carrying value as of June 30, 2014 and December 31, 2013.

	June 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Senior secured notes (a)	\$667,992	\$671,936	\$667,487	\$697,568
PBFX Term Loan (b)	300,000	300,000	—	—
Revolving Loan (b)	—	—	15,000	15,000
Rail Facility (b)	8,225	8,225	—	—
PBFX Revolving Credit Facility (b)	—	—	—	—
Catalyst leases (c)	57,429	57,429	53,089	53,089
	1,033,646	1,037,590	735,576	765,657
Less - Current maturities	13,009	13,009	12,029	12,029
Long-term debt	\$1,020,637	\$1,024,581	\$723,547	\$753,628

(a) The estimated fair value, categorized as a Level 2 measurement, was calculated based on the present value of future expected payments utilizing implied current market interest rates based on quoted prices of the senior secured notes.

(b) The estimated fair value approximates carrying value, categorized as a Level 2 measurement, as these borrowings bear interest based upon short-term floating market interest rates.

(c) Catalyst leases are valued using a market approach based upon commodity prices for similar instruments quoted in active markets and are categorized as a Level 2 measurement. The Company has elected the fair value option for accounting for its catalyst lease repurchase obligations as the Company's liability is directly impacted by the change in fair value of the underlying catalyst.

14. DERIVATIVES

The Company uses derivative instruments to mitigate certain exposures to commodity price risk. The Company's crude supply agreements contain purchase obligations for certain volumes of crude oil and other feedstocks. In addition, the Company entered into Inventory Intermediation Agreements commencing in July 2013 that contain purchase obligations for certain volumes of intermediates and refined products. The purchase obligations related to crude oil, feedstocks, intermediates and refined products under these agreements are derivative instruments that have been designated as fair value hedges in order to hedge the commodity price volatility of certain refinery inventory. The fair value of these purchase obligation derivatives is based on market prices of the underlying crude oil and refined products. The level of activity for these derivatives is based on the level of operating inventories.

As of June 30, 2014, there were 958,599 barrels of crude oil and feedstocks (838,829 barrels at December 31, 2013) outstanding under these derivative instruments designated as fair value hedges and no barrels (no barrels at December 31, 2013) outstanding under these derivative instruments not designated as hedges. As of June 30, 2014, there were 3,250,581 barrels of intermediates and refined products (3,274,047 barrels at December 31, 2013) outstanding under these derivative instruments designated as fair value hedges and no barrels (no barrels at December 31, 2013) outstanding under these derivative instruments not designated as hedges. These volumes represent the notional value of the contract.

The Company also enters into economic hedges primarily consisting of commodity derivative contracts that are not designated as hedges and are used to manage price volatility in certain crude oil and feedstock inventories as

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well as crude oil, feedstock, and refined product sales or purchases. The objective in entering into economic hedges is consistent with the objectives discussed above for fair value hedges. As of June 30, 2014, there were 88,319,388 barrels of crude oil and 521,321 barrels of refined products (43,199,000 and 0, respectively, as of December 31, 2013), outstanding under short and long term commodity derivative contracts not designated as hedges representing the notional value of the contracts.

The following tables provide information about the fair values of these derivative instruments as of June 30, 2014 and December 31, 2013 and the line items in the consolidated balance sheet in which the fair values are reflected.

Description	Balance Sheet Location	Fair Value Asset/(Liability)
Derivatives designated as hedging instruments:		
June 30, 2014:		
Derivatives included with inventory supply arrangement obligations	Accrued expenses	\$(1,247)
Derivatives included with the intermediation agreement obligations	Accrued expenses	\$15,059
December 31, 2013:		
Derivatives included with inventory supply arrangement obligations	Accrued expenses	\$(177)
Derivatives included with the intermediation agreement obligations	Accrued expenses	\$6,016
Derivatives not designated as hedging instruments:		
June 30, 2014:		
Commodity contracts	Accounts receivable	\$21,187
Commodity contracts	Accrued expenses	\$(575)
December 31, 2013:		
Commodity contracts	Accrued expenses	\$(19,421)

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The following tables provide information about the gain or loss recognized in income on these derivative instruments and the line items in the consolidated financial statements in which such gains and losses are reflected.

Description	Location of Gain or (Loss) Recognized in Income on Derivatives	Gain or (Loss) Recognized in Income on Derivatives
Derivatives designated as hedging instruments:		
For the three months ended June 30, 2014:		
Derivatives included with inventory supply arrangement obligations	Cost of sales	\$(3,719)
Derivatives included with the intermediation agreement obligations	Cost of sales	\$(5,770)
For the three months ended June 30, 2013:		
Derivatives included with inventory supply arrangement obligations	Cost of sales	\$4,880
Derivatives included with the intermediation agreement obligations	Cost of sales	\$—
For the six months ended June 30, 2014:		
Derivatives included with inventory supply arrangement obligations	Cost of sales	\$(1,069)
Derivatives included with the intermediation agreement obligations	Cost of sales	\$9,042
For the six months ended June 30, 2013:		
Derivatives included with inventory supply arrangement obligations	Cost of sales	\$(2,871)
Derivatives included with the intermediation agreement obligations	Cost of sales	\$—
Derivatives not designated as hedging instruments:		
For the three months ended June 30, 2014:		
Commodity contracts	Cost of sales	\$(41,119)
For the three months ended June 30, 2013:		
Commodity contracts	Cost of sales	\$(4,728)
For the six months ended June 30, 2014:		
Commodity contracts	Cost of sales	\$31,278
For the six months ended June 30, 2013:		
Commodity contracts	Cost of sales	\$13,949
Hedged items designated in fair value hedges:		
For the three months ended June 30, 2014:		
Crude oil and feedstock inventory	Cost of sales	\$3,719
Intermediate and refined product inventory	Cost of sales	\$5,770
For the three months ended June 30, 2013:		
Crude oil and feedstock inventory	Cost of sales	\$6,393
Intermediate and refined product inventory	Cost of sales	\$—
For the six months ended June 30, 2014:		
Crude oil and feedstock inventory	Cost of sales	\$1,069
Intermediate and refined product inventory	Cost of sales	\$(9,042)
For the six months ended June 30, 2013:		
Crude oil and feedstock inventory	Cost of sales	\$3,505
Intermediate and refined product inventory	Cost of sales	\$—

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The Company had no ineffectiveness related to the Company's fair value hedges for the three and six months ended June 30, 2014 and a gain of \$11,273 and \$634 for the three and six months ended June 30, 2013, which was recorded in cost of sales. Gains and losses due to ineffectiveness, resulting from the difference in the forward and spot rates of the underlying crude inventory related to the derivatives included with inventory supply arrangement obligations, were excluded from the assessment of hedge effectiveness.

15. SEGMENT INFORMATION

The Company's operations are organized into two reportable segments, Refining and Logistics. Operations that are not included in the Refining and Logistics segments are included in Corporate. Intersegment transactions are eliminated in the consolidated financial statements and are included in Eliminations.

Refining

The Company's Refining Segment includes the operations of its three refineries which are located in Toledo, Ohio, Delaware City, Delaware and Paulsboro, New Jersey. The refineries produce unbranded transportation fuels, heating oil, petrochemical feedstocks, lubricants and other petroleum products in the United States. The Company purchases crude oil, other feedstocks and blending components from various third-party suppliers. The Company sells products throughout the Northeast and Midwest of the United States, as well as in other regions of the United States and Canada, and is able to ship products to other international destinations. The refineries have a combined processing capacity, known as throughput, of approximately 540,000 barrels per day ("bpd"), and a weighted-average Nelson Complexity Index of 11.3.

Logistics

The Company formed PBFX, a publicly traded master limited partnership, to own or lease, operate, develop and acquire crude oil and refined petroleum products terminals, pipelines, storage facilities and similar logistics assets. PBFX's assets consist of (i) a rail terminal which has a double loop track and ancillary pumping and unloading equipment located at the Delaware City refinery with an unloading capacity of approximately 130,000 bpd; and (ii) a truck terminal that was comprised of six lease automatic custody transfer units accepting crude oil deliveries by truck located at the Toledo refinery designed for total throughput capacity of up to approximately 22,500 bpd. PBFX provides various rail and truck terminaling services to PBF Holding and/or its subsidiaries through long-term commercial agreements. PBFX currently does not generate third party revenue and as such intersegment related revenues are eliminated in consolidation. Prior to the PBFX Offering, PBFX's assets were operated within the refining operations of the Company's Delaware City and Toledo refineries. The assets did not generate third party or intra-entity revenue and were not considered to be a separate reportable segment.

The Company evaluates the performance of its segments based primarily on income from operations. Income from operations includes those revenues and expenses that are directly attributable to management of the respective segment. The Logistics segment's revenues include inter-segment transactions with the Company's Refining segment at prices the Company believes are substantially equivalent to the prices that could have been negotiated with unaffiliated parties with respect to similar services. Activities of the Company's business that are not included in the two operating segments are included in Corporate. Such activities consist primarily of corporate staff operations and other items that are not specific to the normal operations of the two operating segments. The Company does not allocate certain items of other income and expense, including income taxes, to the individual segments. The Refinery segment's operating subsidiaries and PBFX are primarily pass-through entities with respect to income taxes.

Disclosures regarding our reportable segments with reconciliations to consolidated totals for the three and six months ended June 30, 2014 and June 30, 2013 are presented below. The Logistics segment's results include financial

information of the predecessor of PBFX for periods prior to May 13, 2014, and the financial information of PBFX for the period beginning May 14, 2014, the completion date of the PBFX Offering. Prior to the PBFX Offering, the Company did not operate the PBFX assets independent of the Refining segment. Total assets of each segment consist of net property, plant and equipment, inventories, cash and cash equivalents, accounts receivables

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and other assets directly associated with the segment's operations. Corporate assets consist primarily of deferred tax assets, property, plant and equipment and other assets not directly related to our refinery and logistic operations.

Three Months Ended June 30, 2014

	Refining	Logistics	Corporate	Eliminations	Consolidated Total
Revenues	\$5,301,709	\$7,782	\$—	\$(7,782)	\$5,301,709
Depreciation and amortization expense	31,036	284	3,342	—	34,662
Income (loss) from operations	118,913	4,374	(35,437)	—	87,850
Interest expense, net	7,615	360	18,227	—	26,202
Capital expenditures	\$78,877	\$2,712	\$887	\$—	\$82,476

Three Months Ended June 30, 2013

	Refining	Logistics	Corporate	Eliminations	Consolidated Total
Revenues	\$4,678,293	\$—	\$—	\$—	\$4,678,293
Depreciation and amortization expense	23,961	286	3,316	—	27,563
Income (loss) from operations	157,794	(2,310)	(22,457)	—	133,027
Interest expense, net	3,561	—	18,147	—	21,708
Capital expenditures	\$34,700	\$4,261	\$14,610	\$—	\$53,571

Six Months Ended June 30, 2014

	Refining	Logistics	Corporate	Eliminations	Consolidated Total
Revenues	\$10,048,152	\$7,782	\$—	\$(7,782)	\$10,048,152
Depreciation and amortization expense	60,480	575	6,822	—	67,877
Income (loss) from operations	421,501	1,914	(75,358)	—	348,057
Interest expense, net	15,083	360	36,014	—	51,457
Capital expenditures	\$162,476	\$4,004	\$6,408	\$—	\$172,888

Six months ended June 30, 2013

Refining	Logistics
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