

PBF Energy Inc.
Form 10-Q
November 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: September 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 November 5, 2014, PBF Energy Inc. had outstanding 83,578,649 shares of Class A common stock and 39 shares of Class B common stock.

PBF ENERGY INC.
 FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 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 90.4% 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 files 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 (“PBFX”), 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;
- the status of an air permit to transfer crude through the Delaware City 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, marine 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 restrictions 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 PBFX as a separate, publicly-traded entity;
- potential tax consequences related to our investment in PBFX;
- receipt of regulatory approvals and compliance with contractual obligations required in connection with PBFX; and
- the impact of the initial public offering of PBFX 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)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$477,393	\$76,970
Accounts receivable	698,399	596,647
Inventories	1,787,465	1,445,517
Deferred tax asset	11,567	25,529
Prepaid expense and other current assets	30,739	55,843
Total current assets	3,005,563	2,200,506
Property, plant and equipment, net	1,902,006	1,781,589
Deferred tax assets	418,116	169,234
Marketable securities	264,913	—
Deferred charges and other assets, net	286,520	262,479
Total assets	\$5,877,118	\$4,413,808
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$377,343	\$402,293
Accrued expenses	1,432,835	1,209,881
Payable to related parties pursuant to tax receivable agreement	12,541	12,541
Current portion of long-term debt	—	12,029
Deferred revenue	1,749	7,766
Total current liabilities	1,824,468	1,644,510
Delaware Economic Development Authority loan	8,000	12,000
Long-term debt	1,148,503	723,547
Payable to related parties pursuant to tax receivable agreement	677,718	274,775
Other long-term liabilities	43,890	43,720
Total liabilities	3,702,579	2,698,552
Commitments and contingencies (Note 11)		
Equity:		
Class A common stock, \$0.001 par value, 1,000,000,000 shares authorized, 86,390,173 shares outstanding at September 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, 39 shares outstanding, at September 30, 2014 and December 31, 2013	—	—
Preferred stock, \$0.001 par value, 100,000,000 shares authorized, no shares outstanding, at September 30, 2014 and December 31, 2013	—	—
Treasury stock, at cost	(32,593) —
Additional paid in capital	1,505,851	657,499
Retained earnings	179,324	3,579

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Accumulated other comprehensive loss	(12,590) (6,988)
Total PBF Energy Inc. equity	1,640,080	654,130	
Noncontrolling interest	534,459	1,061,126	
Total equity	2,174,539	1,715,256	
Total liabilities and equity	\$5,877,118	\$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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$5,260,003	\$4,858,880	\$15,308,155	\$14,335,020
Cost and expenses:				
Cost of sales, excluding depreciation	4,670,908	4,663,697	13,754,048	13,394,777
Operating expenses, excluding depreciation	202,625	192,647	682,246	601,245
General and administrative expenses	34,339	30,748	103,976	79,983
Loss (gain) on sale of assets	18	(48)	(162)	(48)
Depreciation and amortization expense	68,010	27,435	135,887	81,530
	4,975,900	4,914,479	14,675,995	14,157,487
Income (loss) from operations	284,103	(55,599)	632,160	177,533
Other income (expenses):				
Change in fair value of catalyst leases	5,543	(2,363)	1,204	3,118
Interest expense, net	(24,374)	(26,242)	(75,831)	(69,561)
Income (loss) before income taxes	265,272	(84,204)	557,533	111,090
Income tax expense (benefit)	95,260	(19,311)	158,413	(898)
Net income (loss)	170,012	(64,893)	399,120	111,988
Less: net income (loss) attributable to noncontrolling interests	29,042	(45,045)	159,746	103,604
Net income (loss) attributable to PBF Energy Inc.	\$140,970	\$(19,848)	\$239,374	\$8,384
Weighted-average shares of Class A common stock outstanding				
Basic	87,656,611	39,575,429	71,544,080	30,094,946
Diluted	97,344,515	39,575,429	72,071,903	30,748,901
Net income (loss) available to Class A common stock per share:				
Basic	\$1.61	\$(0.50)	\$3.35	\$0.28
Diluted	\$1.60	\$(0.50)	\$3.32	\$0.27
Dividends per common share	\$0.30	\$0.30	\$0.90	\$0.90

See notes to condensed consolidated financial statements.

PBF ENERGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$170,012	\$(64,893)	) \$399,120	\$111,988
Other comprehensive income (loss):				
Unrealized gain (loss) on available for sale securities	(160	) 13	(75	) 7
Net gain (loss) on pension and other postretirement benefits	242	108	691	324
Total other comprehensive income (loss)	82	121	616	331
Comprehensive income (loss)	170,094	(64,772)	) 399,736	112,319
Less: comprehensive income (loss) attributable to noncontrolling interest	29,053	(45,004)	) 159,809	103,800
Comprehensive income (loss) attributable to PBF Energy Inc.	\$141,041	\$(19,768)) \$239,927	\$8,519

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$399,120	\$111,988
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	141,547	86,417
Stock-based compensation	5,377	2,750
Change in fair value of catalyst lease obligations	(1,204)	(3,118)
Deferred income taxes	70,718	(898)
Change in tax receivable agreement liability	(2,990)	8,095
Non-cash change in inventory repurchase obligations	(31,602)	(13,362)
Pension and other post retirement benefit costs	16,462	12,654
Gain on disposition of property, plant and equipment	(162)	(48)
Changes in current assets and current liabilities:		
Accounts receivable	(101,752)	(74,083)
Inventories	(378,538)	31,165
Prepaid expenses and other current assets	25,104	(42,745)
Accounts payable	(76,008)	203,865
Accrued expenses	308,523	48,811
Deferred revenue	(6,017)	(208,661)
Other assets and liabilities	(15,617)	(20,249)
Net cash provided by operations	352,961	142,581
Cash flow from investing activities:		
Expenditures for property, plant and equipment	(258,875)	(201,906)
Expenditures for deferred turnaround costs	(58,423)	(15,859)
Expenditures for other assets	(13,446)	(10,584)
Purchase of marketable securities	(1,188,906)	—
Maturities of marketable securities	923,996	—
Proceeds from sale of assets	74,343	30,826
Net cash used in investing activities	(521,311)	(197,523)
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	(80,400)	(140,457)
Distributions to PBFX unit holders	(2,573)	—
Dividend payments	(63,629)	(26,042)
Proceeds from revolver borrowings	395,000	745,000
Repayments of revolver borrowings	(410,000)	(730,000)
Proceeds from Rail Facility revolver borrowings	35,925	—
Proceeds from PBFX revolver borrowings	140,100	—
Proceeds from PBFX Term Loan borrowings	300,000	—

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Repayments of PBFX Term Loan borrowings	(35,100) —	
Payment of contingent consideration related to acquisition of Toledo refinery	—	(21,357)
Purchases of treasury stock	(32,593) —	
Deferred financing costs and other	(13,914	) (669)
Net cash provided by (used in) financing activities	568,773	(173,525)

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	400,423	(228,467)
Cash and equivalents, beginning of period	76,970	285,884	
Cash and equivalents, end of period	\$477,393	\$57,417	

Supplemental cash flow disclosures

Non-cash activities:

Conversion of Delaware Economic Development Authority loan to grant	\$4,000	\$4,000
Accrued construction in progress and unpaid fixed assets	65,193	7,649

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, PBF Energy Limited, 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 51.1% 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 was formed to operate 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 nine months ended September 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

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. All of PBFX's revenue is derived from long-term, fee-based commercial agreements with PBF Holding, 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 Holding 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 of PBFX for accounting purposes.

Initial Public Offering

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.

PBF ENERGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 8 "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.

PBFX's initial assets consisted of a light crude oil rail unloading terminal at the Delaware City refinery that also services the Paulsboro refinery (which is referred to as the "Delaware City Rail Terminal"), and a crude oil truck unloading terminal at the Toledo refinery (which is referred to as the "Toledo Truck Terminal") that are integral components of the crude oil delivery operations at all three of PBF Energy's refineries.

September 2014 Drop-down Transaction

Effective September 30, 2014, PBF Holding distributed to PBF LLC all of the equity interests of Delaware City Terminals Company II LLC ("DCT II"), which assets consist solely of the Delaware City heavy crude unloading rack (the "DCR West Rack"). PBF LLC then contributed to PBFX all of the equity interests of DCT II for total consideration of \$150,000, consisting of \$135,000 of cash and \$15,000 of PBFX common units, or 589,536 common units (the "DCR West Rack Acquisition"). The DCR West Rack has an estimated throughput capacity of approximately 40,000 bpd. Subsequent to the DCR West Rack Acquisition, PBF LLC holds a 51.1% limited partner interest in PBFX consisting of 663,589 common units and 15,886,553 subordinated units.

3. NONCONTROLLING INTEREST OF PBF ENERGY AND PBFX

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. As of September 30, 2014, PBF Energy held approximately 90.4% of the economic interests in PBF LLC. 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.

PBF ENERGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

	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		%
September 30, 2014	9,170,696	86,390,173	95,560,869		
	9.6	% 90.4	% 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 51.1% limited partner interest in PBFX and owns all of PBFX's incentive distribution rights, with the remaining 48.9% limited partner interest owned by public common unit holders as of September 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 September 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		%
September 30, 2014	15,812,500	16,550,142	32,362,642		
	48.9	% 51.1	% 100.0		%

PBF ENERGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes the changes in equity for the controlling and noncontrolling interests of PBF Energy for the nine months ended September 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	239,927	152,481	7,328	399,736
Dividends and distributions	(63,629)	(80,400)	(2,573)	(146,602)
Record deferred tax asset and liabilities and tax receivable agreement associated with secondary offerings	(102,533)			