Delek US Holdings, Inc.
Form 10-Q
August 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from to

Commission file number 001-32868
DELEK US HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	52-2319066
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7102 Commerce Way Brentwood, Tennessee	37027
(Address of principal executive offices)	(Zip Code)

(615) 771-6701
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

At July 29, 2016, there were 61,823,562 shares of common stock, $0.01 par value, outstanding (excluding securities held by, or for the account of, the Company or its subsidiaries).

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Item 1. Financial Statements

Delek US Holdings, Inc.
Condensed Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$377.1	$ 302.2
Accounts receivable	249.1	233.0
Accounts receivable from related party	0.1	0.5
Inventories, net of lower of cost or market valuation	407.8	307.6
Other current assets	74.1	145.5
Total current assets	1,108.2	988.8
Property, plant and equipment:		
Property, plant and equipment	2,105.1	2,100.1
Less: accumulated depreciation	(640.3)	(579.0)
Property, plant and equipment, net	1,464.8	1,521.1
Goodwill	74.4	74.4
Other intangibles, net	27.3	27.3
Equity method investments	599.7	605.2
Other non-current assets	88.9	108.1
Total assets	$3,363.3	$ 3,324.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$465.7	$ 397.6
Current portion of long-term debt and capital lease obligations	91.7	95.2
Obligation under Supply and Offtake Agreement	129.8	132.0
Accrued expenses and other current liabilities	226.6	134.9
Total current liabilities	913.8	759.7
Non-current liabilities:		
Long-term debt and capital lease obligations, net of current portion	849.7	880.5
Environmental liabilities, net of current portion	6.7	7.9
Asset retirement obligations	9.5	9.7
Deferred tax liabilities	231.8	247.9
Other non-current liabilities	37.0	65.3
Total non-current liabilities	1,134.7	1,211.3
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value, 110,000,000 shares authorized, 67,019,353 shares and 66,946,721 shares issued at June 30, 2016 and December 31, 2015, respectively	0.7	0.7
Additional paid-in capital	646.3	639.2
Accumulated other comprehensive loss	(30.8)	(45.3)
Treasury stock, 5,195,791 shares and 4,809,701 shares, at cost, as of June 30, 2016 and December 31, 2015, respectively	(160.8)	(154.8)
Retained earnings	658.4	713.5

Non-controlling interest in subsidiaries	201.0	200.6
Total stockholders’ equity	1,314.8	1,353.9
Total liabilities and stockholders’ equity	$3,363.3	$ 3,324.9

See accompanying notes to condensed consolidated financial statements

Delek US Holdings, Inc.
Condensed Consolidated Statements of Income (Unaudited)
(In millions, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	$1,426.4	$1,693.1	$2,532.3	$2,843.7
Operating costs and expenses:				
Cost of goods sold	1,253.9	1,438.2	2,245.0	2,444.3
Operating expenses	90.3	106.0	192.2	197.4
Insurance proceeds — business interruption	—	—	(42.4)	—
General and administrative expenses	29.3	34.3	63.9	67.0
Depreciation and amortization	37.3	34.9	73.4	63.2
Other operating income, net	(0.3)	(0.1)	—	(0.1)
Total operating costs and expenses	1,410.5	1,613.3	2,532.1	2,771.8
Operating income	15.9	79.8	0.2	71.9
Interest expense	15.4	17.3	30.4	27.4
Interest income	(0.4)	(0.2)	(0.7)	(0.6)
Loss (income) from equity method investments	10.6	(7.4)	28.6	(7.4)
Other (income) loss, net	(0.1)	(0.1)	0.5	(1.0)
Total non-operating expenses, net	25.5	9.6	58.8	18.4
(Loss) income before income tax (benefit) expense	(9.6)	70.2	(58.6)	53.5
Income tax (benefit) expense	(9.0)	15.1	(34.1)	9.1
Net (loss) income	(0.6)	55.1	(24.5)	44.4
Net income attributed to non-controlling interest	6.4	6.8	11.7	12.2
Net (loss) income attributable to Delek	$(7.0)	$48.3	$(36.2)	$32.2
Basic (loss) earnings per share	$(0.11)	$0.80	$(0.58)	$0.55
Diluted (loss) earnings per share	$(0.11)	$0.79	$(0.58)	$0.54
Weighted average common shares outstanding:				
Basic	61,827,201	60,555,444	61,979,604	58,931,705
Diluted	61,827,201	61,114,471	61,979,604	59,470,929
Dividends declared per common share outstanding	$0.15	$0.15	$0.30	$0.30

See accompanying notes to condensed consolidated financial statements

Delek US Holdings, Inc.
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss) income attributable to Delek	$(7.0)	$48.3	$(36.2)	$32.2
Other comprehensive income (loss):				
Commodity contracts designated as cash flow hedges:				
Unrealized gains, net of ineffectiveness losses (gains) of $(1.5) million and $(0.5) million for the three and six months ended June 30, 2016, respectively, and $3.9 million and $8.9 million for the three and six months ended June 30, 2015, respectively.	14.8	21.0	7.9	3.5
Realized losses (gains) reclassified to cost of goods sold	7.1	5.6	14.4	(2.3)
Gain on cash flow hedges, net	21.9	26.6	22.3	1.2
Income tax expense	(7.7)	(9.3)	(7.8)	(0.4)
Net comprehensive income on commodity contracts designated as cash flow hedges	14.2	17.3	14.5	0.8
Foreign currency translation gain (loss)	0.1	—	0.2	(0.1)
Other comprehensive loss from equity method investments, net of tax benefit of $0.1 million for the six months ended June 30, 2016.	—	(1.5)	(0.2)	(1.5)
Total other comprehensive income (loss)	14.3	15.8	14.5	(0.8)
Comprehensive income (loss) attributable to Delek	$7.3	$64.1	$(21.7)	$31.4

See accompanying notes to condensed consolidated financial statements

Delek US Holdings, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net (loss) income	$(24.5)	$44.4
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	73.4	63.2
Amortization of deferred financing costs and debt discount	2.6	2.2
Accretion of asset retirement obligations	0.3	0.2
Deferred income taxes	(24.2)	(0.3)
Loss (income) from equity method investments	28.6	(7.4)
Dividends from equity method investments	10.1	5.1
Gain on disposal of assets	—	(0.1)
Equity-based compensation expense	8.2	8.2
Income tax expense (benefit) of equity-based compensation	0.3	(1.5)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(15.7)	(87.0)
Inventories and other current assets	(56.0)	11.4
Market value of derivatives	27.9	31.0
Accounts payable and other current liabilities	111.1	26.8
Obligation under Supply and Offtake Agreement	18.0	(11.8)
Non-current assets and liabilities, net	(3.5)	(10.7)
Net cash provided by operating activities	156.6	73.7
Cash flows from investing activities:		
Business combinations	—	(0.4)
Equity method investments	(33.1)	(218.2)
Purchases of property, plant and equipment	(28.3)	(119.7)
Purchase of intangible assets	(0.7)	(7.2)
Proceeds from sales of assets	2.7	1.3
Net cash used in investing activities	(59.4)	(344.2)
Cash flows from financing activities:		
Proceeds from long-term revolvers	268.9	356.2
Payments on long-term revolvers	(269.8)	(268.1)
Proceeds from term debt and capital lease obligations	1.9	176.7
Payments on term debt and capital lease obligations	(36.0)	(27.6)
Proceeds from product financing agreements	50.4	—
Proceeds from exercise of stock options	—	0.1
Taxes paid due to the net settlement of equity-based compensation	(0.5)	(3.2)
Income tax (expense) benefit of equity-based compensation	(0.3)	1.5
Repurchase of common stock	(6.0)	—
Distribution to non-controlling interest	(11.6)	(9.8)
Dividends paid	(18.9)	(18.0)
Deferred financing costs paid	(0.4)	(3.0)
Net cash (used in) provided by financing activities	(22.3)	204.8
Net increase (decrease) in cash and cash equivalents	74.9	(65.7)
Cash and cash equivalents at the beginning of the period	302.2	444.1
Cash and cash equivalents at the end of the period	$377.1	$378.4

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest of $0.1 million and $0.8 million in the 2016 and 2015 periods, respectively.	$29.0	$23.6
Income taxes	$1.6	$6.7
Non-cash investing activities:		
Equity method investments	$—	$3.8
(Decrease) increase in accrued capital expenditures	$(8.7)	$18.7
Non-cash financing activities:		
Stock issued in connection with the Alon Acquisition	$—	$230.8
Note payable issued in connection with the Alon Acquisition	$—	$145.0

See accompanying notes to condensed consolidated financial statements

Delek US Holdings, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
1. Organization and Basis of Presentation
Delek US Holdings, Inc. is the sole shareholder or owner of membership interests of Delek Refining, Inc. ("Refining"), Delek Finance, Inc., Delek Marketing & Supply, LLC, Lion Oil Company ("Lion Oil"), Delek Renewables, LLC, Delek Rail Logistics, Inc., Delek Logistics Services Company, MAPCO Express, Inc. ("MAPCO Express"), MAPCO Fleet, Inc., NTI Investments, LLC, GDK Bearpaw, LLC, Delek Helena, LLC, Commerce Way Insurance Company, Inc., Delek Transportation, LLC and Delek Land Holdings, LLC. Unless otherwise indicated or the context requires otherwise, the terms "we," "our," "us," "Delek" and the "Company" are used in this report to refer to Delek US Holdings, Inc. and its consolidated subsidiaries. Delek is listed on the New York Stock Exchange under the symbol "DK."
Our condensed consolidated financial statements include the accounts of Delek and its consolidated subsidiaries. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") have been condensed or omitted, although management believes that the disclosures herein are adequate to make the financial information presented not misleading. Our unaudited condensed consolidated financial statements have been prepared in conformity with GAAP applied on a consistent basis with those of the annual audited financial statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 29, 2016 (the "Annual Report on Form 10-K") and in accordance with the rules and regulations of the SEC. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2015 included in our Annual Report on Form 10-K.
Our condensed consolidated financial statements include Delek Logistics Partners, LP ("Delek Logistics"), a variable interest entity. As the general partner of Delek Logistics, we have the sole ability to direct the activities of Delek Logistics that most significantly impact its economic performance. We are also considered to be the primary beneficiary for accounting purposes and are Delek Logistics' primary customer. As Delek Logistics does not derive an amount of gross margin material to us from third parties, there is limited risk to Delek associated with Delek Logistics' operations. However, in the event that Delek Logistics incurs a loss, our operating results will reflect Delek Logistics' loss, net of intercompany eliminations, to the extent of our ownership interest in Delek Logistics.
In the opinion of management, all adjustments necessary for a fair presentation of the financial position and the results of operations for the interim periods have been included. All significant intercompany transactions and account balances have been eliminated in consolidation. All adjustments are of a normal, recurring nature. Operating results for the interim period should not be viewed as representative of results that may be expected for any future interim period or for the full year.
Certain prior period amounts have been reclassified in order to conform to the current year presentation. Additionally, we corrected an immaterial error in the prior period in the consolidated statement of cash flows.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
New Accounting Pronouncements
In June 2016, the Financial Accounting Standards Board ("FASB") issued guidance that requires organizations to use historical experience, current conditions, reasonable and supportable forecasts and forward-looking information in the measurement of all expected credit losses on financial instruments to more accurately estimate those losses. This guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted after December 15, 2018, and interim periods within those fiscal years. We expect to adopt this guidance on or before the effective date and are currently evaluating the impact adopting this new guidance will have on our business, financial condition or results of operations.
In March 2016, the FASB issued guidance that simplifies several aspects of the accounting for share-based payment award transactions, including the accounting for excess tax benefits and deficiencies, classification of awards as either equity or liabilities and classification of excess tax benefits on the statement of cash flows. This guidance is effective

for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and can be early adopted for any interim or annual financial statements that have not yet been issued. Early adoption is permitted. We expect to adopt this guidance on or before the effective date and are currently evaluating the impact adopting this new guidance will have on our business, financial condition or results of operations.

In February 2016, the FASB issued guidance that requires the recognition of a lease liability and a right-of-use asset, initially measured at the present value of the lease payments, in the statement of financial position for all leases previously accounted for as operating leases. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We expect to adopt this guidance on or before the effective date and are currently evaluating the impact adopting this new guidance will have on our business, financial condition or results of operations.

In February 2015, the FASB issued guidance that amends and simplifies the requirements for consolidation and provides additional guidance to reporting entities in evaluating whether certain legal entities, such as limited partnerships, limited liability corporations and securitization structures, should be consolidated. This guidance is effective for interim and annual periods beginning after December 15, 2015. We adopted this guidance on the effective date and the adoption did not have a material impact on our business, financial condition or results of operations.

2. Delek Logistics

Delek Logistics is a publicly traded limited partnership that was formed by Delek to own, operate, acquire and construct crude oil and refined products logistics and marketing assets. A substantial majority of Delek Logistics' assets are integral to Delek's refining and marketing operations. As of June 30, 2016, we owned a 59.7% limited partner interest in Delek Logistics, consisting of 14,798,516 common units, and a 95.1% interest in Logistics GP, which owns the entire 2.0% general partner interest, consisting of 495,975 general partner units, in Delek Logistics and all of the incentive distribution rights.

We have agreements with Delek Logistics that, among other things, establish fees for certain administrative and operational services provided by us and our subsidiaries to Delek Logistics, provide certain indemnification obligations and establish terms for fee-based commercial logistics and marketing services provided by Delek Logistics and its subsidiaries to us.

Delek Logistics is a variable interest entity as defined under GAAP and is consolidated into our condensed consolidated financial statements. With the exception of intercompany balances which are eliminated in consolidation, the Delek Logistics condensed consolidated balance sheets as of June 30, 2016 and December 31, 2015, as presented below, are included in the consolidated balance sheets of Delek (unaudited, in millions).

	June 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$—	$ —
Accounts receivable	17.2	35.0
Accounts receivable from related parties	1.2	—
Inventory	9.8	10.5
Other current assets	0.6	1.6
Net property, plant and equipment	247.1	253.8
Equity method investments	73.4	40.7
Goodwill	12.2	12.2
Intangible assets, net	15.0	15.5
Other non-current assets	5.3	6.0
Total assets	$381.8	$ 375.3
LIABILITIES AND DEFICIT		
Accounts payable	$5.6	$ 6.9
Accounts payable to related parties	—	4.0
Accrued expenses and other current liabilities	8.0	9.8
Revolving credit facility	362.6	351.6
Asset retirement obligations	3.6	3.5
Other non-current liabilities	11.3	10.5
Deficit	(9.3)	(11.0)
Total liabilities and deficit	$381.8	$ 375.3

3. Equity Method Investments

On May 14, 2015, Delek acquired from Alon Israel Oil Company, Ltd. ("Alon Israel") approximately 33.7 million shares of common stock (the "ALJ Shares") of Alon USA Energy, Inc. (NYSE: ALJ) ("Alon USA") pursuant to the terms of a stock purchase agreement with Alon Israel dated April 14, 2015 (the "Alon Acquisition"). The ALJ Shares represented an equity interest in Alon USA of approximately 48%. We acquired the ALJ Shares for the following combination of cash, stock and seller-financed debt:

- Delek issued 6,000,000 restricted shares of its common stock, par value $0.01 per share, to Alon Israel;
- Delek issued an unsecured $145.0 million term promissory note payable to Alon Israel (the "Alon Israel Note") (see Note 6 for further information);
- Delek paid Alon Israel $200.0 million in cash at closing funded with a combination of cash on hand and borrowings under the Lion Term Loan (as defined in Note 6); and
- Delek agreed to pay Alon Israel $5.0 million of additional cash consideration, to be paid ratably in annual installments over a period of five years.

Delek will also issue an additional 200,000 restricted shares of its common stock to Alon Israel if the closing price of Delek's common stock is greater than $50.00 per share for at least 30 consecutive trading days that end on or before May 14, 2017.

As of June 30, 2016, our investment balance in Alon USA was $526.4 million and the excess of our initial investment over our net equity in the underlying net assets of Alon USA was approximately $258.1 million. This excess is included in equity method investments in our consolidated balance sheet and a portion has been attributed to property, plant and equipment and definite lived intangible assets. These portions of the excess are being amortized as a reduction to earnings from equity method investments on a straight-line basis over the lives of the related assets. The earnings or losses from this equity method investment reflected in our consolidated statements of income include our share of net earnings or losses directly attributable to this equity method investment, and amortization of the excess of our investment balance over the underlying net assets of Alon USA. As of June 30, 2016, the market value of our ALJ Shares was $218.3 million, based on quoted market prices. We evaluated our investment in Alon USA as of June 30, 2016 and have determined that the decline in the market value of the ALJ Shares is not other than temporary and, therefore, it was not necessary to record an impairment charge on our investment at June 30, 2016. In determining whether the decline is other than temporary, we considered the cyclical nature of our industry, Alon USA's historical performance, its performance in relation to its peers and the current economic environment.

Below is summarized financial information of the financial position and results of operations of Alon USA (in millions):

Balance Sheet Information	June 30, 2016	December 31, 2015
Current assets	$ 570.2	$ 504.6
Non-current assets	1,675.2	2,176.1
Current liabilities	531.2	425.9
Non-current liabilities	1,087.3	1,512.0
Non-controlling interests	62.0	25.0

	Three Months Ended		Six Months Ended	
Income Statement Information	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenue	$ 1,008.4	$ 1,301.3	$ 1,858.4	$ 2,404.6
Gross profit	137.0	231.4	251.8	440.2
Pre-tax (loss) income	(29.2)	71.7	(86.5)	117.7

Net (loss) income	(20.6	) 47.9	(56.7	) 81.9
Net (loss) income attributable to Alon USA	(20.4	) 36.4	(55.9	) 63.3

Also, in March 2015, Delek Logistics entered into two joint ventures that are currently constructing logistics assets, which will serve third parties and subsidiaries of Delek. Delek Logistics' investment in these joint ventures is expected to be financed through a combination of cash from operations and borrowings under the DKL Revolver (as defined in Note 6). As of June 30, 2016, Delek Logistics' investment balance in these joint ventures was $73.4 million and was accounted for using the equity method. One of the joint venture projects is expected to be operational in August 2016.

4. Inventory
Refinery inventory consists of crude oil, work-in-process, refined products and blendstocks which are stated at the lower of cost or market. Cost of inventory for the Tyler refinery is determined under the last-in, first- out ("LIFO") valuation method. Cost of inventory for the El Dorado refinery is determined on a first-in, first-out ("FIFO") basis. Cost of crude oil, refined product and feedstock inventories in excess of market value are charged to cost of goods sold.
Logistics inventory consists of refined products which are stated at the lower of FIFO cost or market.
Retail inventory consists of gasoline, diesel fuel, other petroleum products, cigarettes, beer, convenience merchandise and food service merchandise. Fuel inventories are stated at the lower of FIFO cost or market. Non-fuel inventories are stated at estimated cost as determined by the retail inventory method.
Carrying value of inventories consisted of the following (in millions):

	June 30, 2016	December 31, 2015
Refinery raw materials and supplies	$ 154.7	$ 85.9
Refinery work in process	39.7	27.8
Refinery finished goods	165.8	146.8
Retail fuel	10.2	9.5
Retail merchandise	27.6	27.1
Logistics refined products	9.8	10.5
Total inventories	$ 407.8	$ 307.6

Due to a lower crude oil and refined product pricing environment experienced since the end of 2014, market prices have declined to a level below the average cost of our inventories. At June 30, 2016, we recorded a pre-tax lower of cost or market reserve of $32.8 million, of which $31.7 million related to LIFO inventory, which is subject to reversal in subsequent periods, not to exceed LIFO cost, should market prices recover. At December 31, 2015, we recorded a pre-tax lower of cost or market reserve of $50.9 million, of which $49.8 million related to LIFO inventory, which reversed in the first quarter of 2016, as the inventories associated with the valuation adjustment at the end of 2015 were sold or used. We recognized net lower of cost or market gains of $13.0 million and $16.9 million for the three and six months ended June 30, 2016, respectively, and $29.9 million and $31.9 million for the three and six months ended June 30, 2015, respectively. These gains were recorded as a component of cost of goods sold in the consolidated statements of income.
At June 30, 2016 and December 31, 2015, the excess of replacement cost (FIFO) over the carrying value (LIFO) of the Tyler refinery inventories was $0.5 million and $0.1 million, respectively.
Permanent Liquidations
We incurred a permanent reduction in a LIFO layer resulting in a liquidation gain (loss) in our refinery inventory of $0.9 million and $(2.4) million during the three and six months ended June 30, 2016, respectively, and $(6.6) million and $(10.2) million during the three and six months ended June 30, 2015, respectively. These liquidations were recognized as a component of cost of goods sold.
5. Crude Oil Supply and Inventory Purchase Agreement
Delek has a Master Supply and Offtake Agreement (the "Supply and Offtake Agreement") with J. Aron & Company ("J. Aron"). Throughout the term of the Supply and Offtake Agreement, which will expire on April 30, 2017, Lion Oil and J. Aron will identify mutually acceptable contracts for the purchase of crude oil from third parties and J. Aron will supply up to 100,000 barrels per day ("bpd") of crude to the El Dorado refinery. Crude oil supplied to the El Dorado refinery by J. Aron will be purchased daily at an estimated average monthly market price by Lion Oil. J. Aron will also purchase all refined products from the El Dorado refinery at an estimated market price daily, as they are produced. These daily purchases and sales are trued-up on a monthly basis in order to reflect actual average monthly prices. We have recorded a payable related to this monthly settlement of $3.4 million and $11.4 million as of June 30, 2016 and December 31, 2015, respectively. Also pursuant to the Supply and Offtake Agreement and other related agreements, Lion Oil will endeavor to arrange potential sales by either Lion Oil or J. Aron to third parties of the products produced at the El Dorado refinery or purchased from third parties. In instances where Lion Oil is the seller to such third parties, J. Aron will first transfer the applicable products to Lion Oil.

While title to the inventories is retained by J. Aron, this arrangement is accounted for as a product financing arrangement. Delek incurred fees payable to J. Aron of $2.6 million and $5.0 million during the three and six months ended June 30, 2016, respectively, and $2.8 million and $5.3 million during the three and six months ended June 30, 2015, respectively. These amounts are included as a component of interest expense in the condensed consolidated statements of income. Upon any termination of the Supply and Offtake Agreement, including in connection with a force majeure event, the parties are required to negotiate with third parties for the assignment to us of certain contracts, commitments and arrangements, including procurement contracts, commitments for the sale of product, and pipeline, terminalling, storage and shipping arrangements.

Upon the expiration of the Supply and Offtake Agreement on April 30, 2017, or upon any earlier termination, Delek will be required to repurchase the consigned crude oil and refined products from J. Aron at then prevailing market prices. At June 30, 2016, Delek had 3.0 million barrels of inventory consigned for J. Aron, and we have recorded liabilities associated with this consigned inventory of $129.8 million in the condensed consolidated balance sheet.

6. Long-Term Obligations and Notes Payable

Outstanding borrowings under Delek's existing debt instruments and capital lease obligations are as follows (in millions):

	June 30, 2016	December 31, 2015
MAPCO Revolver	$ 106.5	$ 118.3
DKL Revolver	362.6	351.6
Wells Term Loan[(1)]	29.1	40.6
Reliant Bank Revolver	17.0	17.0
Promissory Notes	183.0	191.7
Lion Term Loan Facility[(2)]	242.9	256.1
Capital Lease Obligations	0.3	0.4
	941.4	975.7
Less: Current portion of long-term debt, notes payable and capital lease obligations	91.7	95.2
	$ 849.7	$ 880.5

(1) The Wells Term Loan is net of deferred financing costs of $0.1 million and $0.2 million as of June 30, 2016 and December 31, 2015, respectively.

(2) The Lion Term Loan Facility is net of deferred financing costs of $3.4 million and $3.8 million, respectively, and debt discounts of $1.2 million and $1.4 million, respectively, at June 30, 2016 and December 31, 2015.

MAPCO Revolver

Our subsidiary, MAPCO Express, has a revolving credit facility with Fifth Third Bank, as administrative agent, and a syndicate of lenders that was amended and restated on May 6, 2014 (the "MAPCO Revolver"). The MAPCO Revolver consists of a $160.0 million revolving credit limit which includes (i) a $10.0 million swing line loan sub-limit; (ii) a $40.0 million letter of credit sub-limit; and (iii) an accordion feature which permits an increase in borrowings by up to $50.0 million, subject to additional lender commitments. As of June 30, 2016, we had $106.5 million outstanding under the MAPCO Revolver, as well as letters of credit issued of $2.9 million, with approximately $50.6 million of unused credit commitments. Borrowings under the MAPCO Revolver are secured by (i) substantially all the assets of MAPCO Express and its subsidiaries, subject to certain exceptions and limitations, (ii) all of Delek's shares in MAPCO Express, and (iii) a limited guaranty provided by Delek of up to $50.0 million in obligations. The MAPCO Revolver will mature on May 6, 2019. The MAPCO Revolver bears interest based on predetermined pricing grids which allow us to choose between base rate loans or London Interbank Offered Rate ("LIBOR") rate loans. At June 30, 2016, the weighted average borrowing rate under the MAPCO Revolver was approximately 3.1%. Additionally, the MAPCO Revolver requires us to pay a leverage ratio dependent quarterly fee on the average unused revolving commitment. As of June 30, 2016, this fee was 0.35% per year.

DKL Revolver

Delek Logistics has a $700.0 million senior secured revolving credit agreement with Fifth Third Bank, as administrative agent, and a syndicate of lenders (the "DKL Revolver"). Delek Logistics and each of its existing subsidiaries are borrowers under the DKL Revolver. The DKL Revolver contains a dual currency borrowing tranche that permits draw downs in U.S. or Canadian dollars and an accordion feature whereby Delek Logistics can increase the size of the credit facility to an aggregate of $800.0 million, subject to receiving increased or new commitments from lenders and the satisfaction of certain other conditions precedent.

The obligations under the DKL Revolver are secured by a first priority lien on substantially all of Delek Logistics' tangible and intangible assets. Additionally, a subsidiary of Delek provides a limited guaranty of Delek Logistics' obligations under the DKL Revolver. The guaranty is (i) limited to an amount equal to the principal amount, plus unpaid and accrued interest, of a promissory note made by Delek in favor of the subsidiary guarantor (the "Holdings Note") and (ii) secured by the subsidiary guarantor's pledge of the Holdings Note to the DKL Revolver lenders. As of June 30, 2016, the principal amount of the Holdings Note was $102.0 million. The DKL Revolver will mature on December 30, 2019. Borrowings under the DKL Revolver bear interest at either a U.S. base rate, Canadian prime rate, LIBOR, or a Canadian Dealer Offered Rate, in each case plus applicable margins, at the election of the borrowers and as a function of draw down currency. The applicable margin, in each case, varies based upon Delek Logistics' leverage ratio, which is defined as the ratio of total funded debt to EBITDA for the most recently ended four fiscal quarters. At June 30, 2016, the weighted average borrowing rate was approximately 2.8%. Additionally, the DKL Revolver requires Delek Logistics to pay a leverage ratio dependent quarterly fee on the average unused revolving commitment. As of June 30, 2016, this fee was 0.40% per year. As of June 30, 2016, Delek Logistics had approximately $362.6 million of outstanding borrowings under the credit facility, as well as letters of credit issued of $7.5 million. Unused credit commitments under the DKL Revolver, as of June 30, 2016, were approximately $329.9 million.

Wells ABL

Our subsidiary, Delek Refining, Ltd., has an asset-based loan credit facility with Wells Fargo Bank, National Association, as administrative agent, and a syndicate of lenders (the "Wells ABL") that consists of (i) a $600.0 million revolving loan (the "Wells Revolving Loan"), which includes a $55.0 million swing line loan sub-limit and a $550.0 million letter of credit sub-limit, (ii) a $70.0 million delayed single draw term loan (the "Wells Term Loan"), and (iii) an accordion feature which permits an increase in the size of the revolving credit facility to an aggregate of $875.0 million, subject to additional lender commitments and the satisfaction of certain other conditions precedent. The Wells Revolving Loan matures on January 16, 2019 and the Wells Term Loan matures on December 31, 2016. The Wells Term Loan is subject to repayment in level principal installments of approximately $5.8 million per quarter, with a final balloon payment due on December 31, 2016. As of June 30, 2016, under the Wells ABL, we had letters of credit issued totaling approximately $91.5 million and no amounts outstanding under the Wells Revolving Loan; under the Wells Term Loan we had approximately $29.2 million outstanding. The obligations under the Wells ABL are secured by (i) substantially all the assets of Refining and its subsidiaries, with certain limitations, (ii) a limited guarantee provided by Delek in an amount up to $15.0 million and (iii) a limited guarantee provided by Lion Oil in an amount equal to the sum of the face amount of all letters of credit issued on behalf of Lion Oil under the Wells ABL and any loans made by Refining or its subsidiaries to Lion Oil. Under the facility, revolving loans and letters of credit are provided subject to availability requirements which are determined pursuant to a borrowing base calculation as defined in the credit agreement. The borrowing base as calculated is primarily supported by cash, certain accounts receivable and certain inventory. Borrowings under the Wells Revolving Loan and Wells Term Loan bear interest based on separate predetermined pricing grids which allow us to choose between base rate loans or LIBOR rate loans. At June 30, 2016, the weighted average borrowing rate under the Wells Term Loan was approximately 4.2%. Additionally, the Wells ABL requires us to pay a quarterly unused credit commitment fee. As of June 30, 2016, this fee was approximately 0.38% per year. Unused borrowing base availability, as calculated and reported under the terms of the Wells ABL credit facility, as of June 30, 2016, was $244.2 million.

Reliant Bank Revolver

We have a revolving credit agreement with Reliant Bank, which was amended on May 26, 2016 (the "Reliant Bank Revolver"). The Reliant Bank Revolver provides for unsecured loans of up to $17.0 million. As of June 30, 2016, we had $17.0 million outstanding under this facility. The Reliant Bank Revolver matures on June 28, 2018, and bears interest at a fixed rate of 5.25% per annum. The Reliant Bank Revolver requires us to pay a quarterly fee of 0.50% per year on the average available revolving commitment. As of June 30, 2016, we had no unused credit commitments under the Reliant Bank Revolver.

Promissory Notes

In 2011, Delek began construction on new MAPCO Mart convenience stores (each a "Build-to-Suit Development" or "BTS"). In order to fund these construction projects, we entered into separate notes for each BTS project with Standard Insurance Company (collectively, the "Notes") varying in size from approximately $1.0 million to $2.2 million. The Notes bear interest at fixed rates, ranging from 5.0% to approximately 6.4% per annum. Each of the Notes is secured by the land or leasehold interest, as applicable, and the building and equipment of its respective completed MAPCO Mart. Under the terms of each Note, beginning on the first day of the eleventh month following the initial fund advancement, payments of principal on each respective Note are due over a ten-year term calculated using a 25-year amortization schedule. If any Note is not paid in full after the initial ten-year period, we may continue to make monthly payments under the Note; however, the interest rate will reset pursuant to the terms of the Note. There is also an additional interest rate reset after the first 20-year period. The final maturity dates of the Notes range from June 1, 2036 to December 1, 2041. As of June 30, 2016, we had amounts drawn under 33 Notes related to these BTS projects, for a total amount of approximately $53.0 million outstanding under the Notes.

On April 29, 2011, Delek entered into a $50.0 million promissory note (the "Ergon Note") with Ergon, Inc. ("Ergon") in connection with the closing of our acquisition of Lion Oil. As of June 30, 2016, $10.0 million was outstanding under the Ergon Note. The Ergon Note requires Delek to make annual amortization payments of $10.0 million each, commencing April 29, 2013. The Ergon Note matures on April 29, 2017. Interest under the Ergon Note is computed at a fixed rate equal to 4.00% per annum.

On May 14, 2015, in connection with the closing of the Company's acquisition of the ALJ Shares, the Company issued the Alon Israel Note, which was payable to Alon Israel. The Alon Israel Note bears interest at a fixed rate of 5.50% per annum and requires five annual principal amortization payments of $25.0 million beginning in January 2016 followed by a final principal amortization payment of $20.0 million at maturity on January 4, 2021. In October 2015, we prepaid the first annual principal amortization payment in the amount of $25.0 million, along with all interest due on the prepaid amount. On December 22, 2015, Alon Israel assigned the remaining $120.0 million of principal and all accrued interest due under the Alon Israel Note to assignees under four new notes in substantially the same form and on the same terms as the Alon Israel Note (collectively, the "Alon Successor Notes"). The $120.0 million in total principal of the four Alon Successor Notes collectively require the same principal amortization payments and schedule as under the Alon Israel Note, with payments due under each Alon Successor Note commensurate to such note's pro rata share of $120.0 million in assigned principal. As of June 30, 2016, a total principal amount of $120.0 million was outstanding under the Alon Successor Notes.

Lion Term Loan

Our subsidiary, Lion Oil, has a term loan credit facility with Fifth Third Bank, as administrative agent, and a syndicate of lenders, which was amended and restated on May 14, 2015 in connection with the Company's closing of the Alon Acquisition to, among other things, increase the total loan size from $99.0 million to $275.0 million (the "Lion Term Loan"). The Lion Term Loan requires Lion Oil to make quarterly principal amortization payments of approximately $6.9 million each, commencing on September 30, 2015, with a final balloon payment due at maturity on May 14, 2020. The Lion Term Loan is secured by, among other things, (i) substantially all the assets of Lion Oil and its subsidiaries (excluding inventory and accounts receivable), (ii) all shares in Lion Oil, (iii) any subordinated and common units of Delek Logistics held by Lion Oil, and (iv) the ALJ Shares. Additionally, the Lion Term Loan is guaranteed by Delek and the subsidiaries of Lion Oil. Interest on the unpaid balance of the Lion Term Loan is computed at a rate per annum equal to LIBOR or a base rate, at our election, plus the applicable margins, subject in each case to an all-in interest rate floor of 5.50% per annum. As of June 30, 2016, $247.5 million was outstanding under the Lion Term Loan and the weighted average borrowing rate was 5.50%.

Restrictive Covenants

Under the terms of our MAPCO Revolver, Wells ABL, DKL Revolver, Reliant Bank Revolver and Lion Term Loan, we are required to comply with certain usual and customary financial and non-financial covenants. Further, although we were not required to comply with separate fixed charge coverage ratio financial covenants under the Wells ABL and the Lion Term Loan during the three and six months ended June 30, 2016, we may be required to comply with these covenants at times when certain trigger thresholds are met, as defined in each of the Wells ABL and Lion Term Loan agreements. We believe we were in compliance with all covenant requirements under each of our credit facilities as of June 30, 2016.

Certain of our credit facilities contain limitations on the incurrence of additional indebtedness, making of investments, creation of liens, dispositions of property, making of restricted payments and transactions with affiliates. Specifically, these covenants may limit the payment, in the form of cash or other assets, of dividends or other distributions, or the repurchase of shares with respect to the equity of our subsidiaries. Additionally, certain of our credit facilities limit our ability to make investments, including extensions of loans or advances to, or acquisitions of equity interests in, or guarantees of obligations of, any other entities.

Interest-Rate Derivative Instruments

Delek had an interest rate cap agreement in place for a notional amount of $45.0 million, which matured in February 2016. This agreement, and similar interest rate hedge agreements in place that matured during 2015, were intended to economically hedge floating interest rate risk related to a portion of our existing debt. However, as we have elected not to apply the permitted hedge accounting treatment, including formal hedge designation and documentation, in accordance with the provisions of Accounting Standards Codification ("ASC") 815, Derivatives and Hedging ("ASC 815"), the fair value of the derivatives is recorded in other current assets in the accompanying condensed consolidated balance sheets with the offset recognized in interest expense in the accompanying condensed consolidated statements of income. The interest rate cap agreement had no fair value as of December 31, 2015.

In accordance with ASC 815, we recorded expense representing cash settlements and changes in estimated fair value of the interest rate derivative agreements of $0.1 million and $0.2 million for the three and six months ended June 30,

2015. This amount is included in interest expense in the accompanying consolidated statement of income. There was no expense related to interest rate derivative agreements for the three and six months ended June 30, 2016.
While Delek has not elected to apply permitted hedge accounting treatment for these interest rate derivatives in accordance with the provisions of ASC 815 in the past, we may choose to apply that treatment for future transactions.

7. Other Assets and Liabilities

The detail of other current assets is as follows (in millions):

Other Current Assets	June 30, 2016	December 31, 2015
Prepaid assets	$ 12.7	$ 12.2
Short-term derivative assets (see Note 14)	3.5	30.7
Income and other tax receivables	38.1	86.9
RINs Obligation surplus (see Note 13)	15.3	12.9
Other	4.5	2.8
Total	$ 74.1	$