

CVR ENERGY INC
Form 10-Q
May 15, 2008

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**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 March 31, 2008

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 001-33492

CVR ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

61-1512186

(I.R.S. Employer Identification No.)

**2277 Plaza Drive, Suite 500
Sugar Land, Texas**

(Address of principal executive offices)

77479

(Zip Code)

Registrant's telephone number, including area code: **(281) 207-3200**

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 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. (Check one):

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes No .

There were 86,141,291 shares of the registrant's common stock outstanding at May 13, 2008.

CVR ENERGY, INC. AND SUBSIDIARIES
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For The Quarter Ended March 31, 2008

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CVR ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,179	\$ 30,509
Accounts receivable, net of allowance for doubtful accounts of \$597 and \$391, respectively	117,033	86,546
Inventories	288,415	254,655
Prepaid expenses and other current assets	13,071	14,186
Insurance receivable	74,275	73,860
Income tax receivable	26,166	31,367
Deferred income taxes	78,325	79,047
 Total current assets	 622,464	 570,170
 Property, plant, and equipment, net of accumulated depreciation	 1,192,542	 1,192,174
Intangible assets, net	450	473
Goodwill	83,775	83,775
Deferred financing costs, net	7,028	7,515
Insurance receivable	11,400	11,400
Other long-term assets	5,932	2,849
 Total assets	 \$ 1,923,591	 \$ 1,868,356
 LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 4,862	\$ 4,874
Note payable and capital lease obligations	11,209	11,640
Payable to swap counterparty	294,984	262,415
Accounts payable	170,194	182,225
Personnel accruals	34,954	36,659
Accrued taxes other than income taxes	22,073	14,732
Deferred revenue	29,784	13,161
Other current liabilities	32,953	33,820
 Total current liabilities	 601,013	 559,526
 Long-term liabilities:		
Long-term debt, less current portion	483,117	484,328
Accrued environmental liabilities	4,924	4,844

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Deferred income taxes	287,974	286,986
Other long-term liabilities	4,447	1,122
Payable to swap counterparty	76,411	88,230
Total long-term liabilities	856,873	865,510
Commitments and contingencies		
Minority interest in subsidiaries	10,600	10,600
Stockholders' equity		
Common stock \$0.01 par value per share; 350,000,000 shares authorized; 86,141,291 shares issued and outstanding	861	861
Additional paid-in-capital	458,523	458,359
Retained earning (deficit)	(4,279)	(26,500)
Total stockholders' equity	455,105	432,720
Total liabilities and stockholders' equity	\$ 1,923,591	\$ 1,868,356

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands except share amounts)

	Three months ended	
	March 31,	
	2008	2007
Net sales	\$ 1,223,003	\$ 390,483
Operating costs and expenses:		
Cost of product sold (exclusive of depreciation and amortization)	1,036,194	303,670
Direct operating expenses (exclusive of depreciation and amortization)	60,556	113,412
Selling, general and administrative expenses (exclusive of depreciation and amortization)	13,497	13,150
Net costs associated with flood	5,763	
Depreciation and amortization	19,635	14,235
Total operating costs and expenses	1,135,645	444,467
Operating income (loss)	87,358	(53,984)
Other income (expense):		
Interest expense and other financing costs	(11,298)	(11,857)
Interest income	702	452
Loss on derivatives, net	(47,871)	(136,959)
Other income, net	179	1
Total other income (expense)	(58,288)	(148,363)
Income (loss) before income taxes and minority interest in subsidiaries	29,070	(202,347)
Income tax expense (benefit)	6,849	(47,298)
Minority interest in loss of subsidiaries		676
Net income (loss)	\$ 22,221	\$ (154,373)
Net earnings per share		
Basic	\$ 0.26	
Diluted	\$ 0.26	
Weighted average common shares outstanding		
Basic	86,141,291	
Diluted	86,158,791	
Pro Forma Information (note 11)		
Net (loss) per share		
Basic		\$ (1.79)

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Diluted	\$	(1.79)
Weighted average common shares outstanding		
Basic		86,141,291
Diluted		86,141,291

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands of dollars)

	Three months ended	
	March 31,	
	2008	2007
Cash flows from operating activities:		
Net income (loss)	\$ 22,221	\$ (154,373)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	19,635	14,235
Provision for doubtful accounts	206	(235)
Amortization of deferred financing costs	495	473
Loss on disposition of fixed assets	16	24
Share-based compensation	(383)	3,742
Minority interest in loss of subsidiaries		(676)
Changes in assets and liabilities:		
Accounts receivable	(30,693)	44,627
Inventories	(31,642)	(22,986)
Prepaid expenses and other current assets	75	31
Insurance receivable	1,085	
Insurance proceeds from flood	(1,500)	
Other long-term assets	(3,159)	923
Accounts payable	(5,166)	46,357
Accrued income taxes	5,201	14,888
Deferred revenue	16,623	5,067
Other current liabilities	5,315	3,470
Payable to swap counterparty	20,750	129,344
Accrued environmental liabilities	80	485
Other long-term liabilities	3,325	
Deferred income taxes	1,710	(41,291)
Net cash provided by operating activities	24,194	44,105
Cash flows from investing activities:		
Capital expenditures	(26,156)	(107,363)
Net cash used in investing activities	(26,156)	(107,363)
Cash flows from financing activities:		
Revolving debt payments	(123,000)	
Revolving debt borrowings	123,000	29,500
Principal payments on long-term debt	(1,223)	
Deferred costs of CVR Energy, Inc. initial public offering		(553)
Deferred costs of CVR Partners, LP initial public offering	(2,145)	

Net cash (used in) provided by financing activities	(3,368)	28,947
Net decrease in cash and cash equivalents	(5,330)	(34,311)
Cash and cash equivalents, beginning of period	30,509	41,919
Cash and cash equivalents, end of period	\$ 25,179	\$ 7,608
Supplemental disclosures:		
Cash paid for income taxes, net of refunds (received)	\$ (63)	\$ (20,895)
Cash paid for interest	11,841	39
Non-cash investing and financing activities:		
Accrual of construction in progress additions	(6,237)	13,204

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(unaudited)

(1) Organization and History of the Company and Basis of Presentation

Organization

The Company or CVR may be used to refer to CVR Energy, Inc. and, unless the context otherwise requires, its subsidiaries. Any references to the Company as of a date after June 24, 2005 and prior to October 16, 2007 (the date of the restructuring as further discussed in this note) are to Coffeyville Acquisition LLC (CALLC) and its subsidiaries.

The Company, through its wholly-owned subsidiaries, acts as an independent petroleum refiner and marketer in the mid-continental United States and a producer and marketer of upgraded nitrogen fertilizer products in North America. The Company's operations include two business segments: the petroleum segment and the nitrogen fertilizer segment.

CALLC formed CVR Energy, Inc. as a wholly owned subsidiary, incorporated in Delaware in September 2006, in order to effect an initial public offering. The initial public offering of CVR was consummated on October 26, 2007. In conjunction with the initial public offering, a restructuring occurred in which CVR became a direct or indirect owner of all of the subsidiaries of CALLC. Additionally, in connection with the initial public offering, CALLC was split into two entities: Coffeyville Acquisition LLC and Coffeyville Acquisition II LLC (CALLC II).

Initial Public Offering of CVR Energy, Inc.

On October 26, 2007, CVR Energy, Inc. completed an initial public offering of 23,000,000 shares of its common stock. The initial public offering price was \$19.00 per share.

The net proceeds to CVR from the initial public offering were approximately \$408.5 million, after deducting underwriting discounts and commissions, but before deduction of offering expenses. The Company also incurred approximately \$11.4 million of other costs related to the initial public offering. The net proceeds from this offering were used to repay \$280.0 million of term debt under the Company's credit facility and to repay all indebtedness under the Company's \$25.0 million unsecured facility and \$25.0 million secured facility, including related accrued interest through the date of repayment of approximately \$5.9 million. Additionally, \$50.0 million of net proceeds were used to repay outstanding revolving loan indebtedness under the Company's credit facility.

In connection with the initial public offering, CVR became the indirect owner of the subsidiaries of CALLC and CALLC II. This was accomplished by CVR issuing 62,866,720 shares of its common stock to CALLC and CALLC II, its majority stockholders, in conjunction with the 628,667.20 for 1 stock split of CVR's common stock and the mergers of two newly formed direct subsidiaries of CVR into Coffeyville Refining & Marketing Holdings, Inc. (Refining Holdco) and Coffeyville Nitrogen Fertilizers, Inc. (CNF). Concurrent with the merger of the subsidiaries and in accordance with a previously executed agreement, the Company's chief executive officer received 247,471 shares of CVR common stock in exchange for shares that he owned of Refining Holdco and CNF. The shares were fully vested and were exchanged at fair market value.

The Company also issued 27,100 shares of common stock to its employees on October 24, 2007 in connection with the initial public offering. Immediately following the completion of the offering, there were 86,141,291 shares of common stock outstanding, which does not include the non-vested shares noted below.

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On October 24, 2007, 17,500 shares of non-vested common stock having a value of \$365,000 at the date of grant were issued to outside directors. Although ownership of the shares does not transfer to the recipients until the shares have vested, recipients have dividend and voting rights with respect to these shares from the date of grant. The fair value of each share of non-vested stock was measured based on the market price of the common stock as of the date of grant and is being amortized over the respective vesting periods. One-third of the non-vested award will vest on October 24, 2008, one-third will vest on October 24, 2009, and the final one-third will vest on October 24, 2010. Options to purchase 10,300 shares of common stock at an exercise price of \$19.00 per share were granted to outside directors on October 22, 2007. These awards will vest over a three year service period. Fair value was measured using an option-pricing model at the date of grant.

Nitrogen Fertilizer Limited Partnership

In conjunction with the consummation of CVR's initial public offering, CVR transferred Coffeyville Resources Nitrogen Fertilizer, LLC (CRNF), its nitrogen fertilizer business, to a newly created limited partnership (Partnership) in exchange for a managing general partner interest (managing GP interest), a special general partner interest (special GP interest, represented by special GP units) and a de minimis limited partner interest (LP interest, represented by special LP units). This transfer was not considered a business combination as it was a transfer of assets among entities under common control and, accordingly, balances were transferred at their historical cost. CVR concurrently sold the managing GP interest to Coffeyville Acquisition LLC III (CALLC III), an entity owned by CVR's controlling stockholders and senior management at fair market value. The board of directors of CVR determined, after consultation with management, that the fair market value of the managing general partner interest was \$10.6 million. This interest has been reflected as minority interest in the Consolidated Balance Sheet.

CVR owns all of the interests in the Partnership (other than the managing general partner interest and the associated incentive distribution rights (IDRs)) and is entitled to all cash distributed by the Partnership. The managing general partner is not entitled to participate in Partnership distributions except with respect to its IDRs, which entitle the managing general partner to receive increasing percentages (up to 48%) of the cash the Partnership distributes in excess of \$0.4313 per unit in a quarter. However, the Partnership is not permitted to make any distributions with respect to the IDRs until the aggregate Adjusted Operating Surplus, as defined in the amended and restated partnership agreement, generated by the Partnership through December 31, 2009 has been distributed in respect of the units held by CVR and any common units issued in the Partnership's initial public offering. The Partnership and its subsidiaries are currently guarantors under the credit facility of Coffeyville Resources, LLC (CRLLC), a wholly-owned subsidiary of CVR.

The Partnership is operated by CVR's senior management pursuant to a services agreement among CVR, the managing general partner, and the Partnership. The Partnership is managed by the managing general partner and, to the extent described below, CVR, as special general partner. As special general partner of the Partnership, CVR

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has joint management rights regarding the appointment, termination, and compensation of the chief executive officer and chief financial officer of the managing general partner, has the right to designate two members of the board of directors of the managing general partner, and has joint management rights regarding specified major business decisions relating to the Partnership. CVR, the Partnership, the managing general partner and various of their subsidiaries also entered into a number of agreements to regulate certain business relations between the parties.

At March 31, 2008, the Partnership had 30,333 special LP units outstanding, representing 0.1% of the total Partnership units outstanding, and 30,303,000 special GP interests outstanding, representing 99.9% of the total Partnership units outstanding. In addition, the managing general partner owned the managing general partner interest and the IDRs. The managing general partner contributed 1% of CRNF's interest to the Partnership in exchange for its managing general partner interest and the IDRs.

On February 28, 2008, the Partnership filed a registration statement with the Securities and Exchange Commission (SEC) to effect the contemplated initial public offering of its common units representing limited partner interests. The registration statement provided that upon consummation of the Partnership's initial public offering, CVR will indirectly own the Partnership's special general partner and approximately 87% of the outstanding units of the Partnership. There can be no assurance that any such offering will be consummated on the terms described in the registration statement or at all. The offering is under review by the SEC and as a result the terms and resulting structure disclosed below could be materially different.

In connection with the Partnership's initial public offering, CRLLC will contribute all of its special LP units to the Partnership's special general partner and all of the Partnership's special general partner interests and special limited partner interests will be converted into a combination of GP units and subordinated GP units. Following the initial public offering, as currently structured, the Partnership is expected to have the following partnership interests outstanding:

5,250,000 common units representing limited partner interests, all of which the Partnership will sell in the initial public offering;

18,750,000 GP units representing special general partner interests, all of which will be held by the Partnership's special general partner;

18,000,000 subordinated GP units representing special general partner interests, all of which will be held by the Partnership's special general partner; and

a managing general partner interest, which is not entitled to any distributions, which is held by the Partnership's managing general partner, and incentive distribution rights representing limited partner interests, all of which will be held by the Partnership's managing general partner.

Effective with the Partnership's initial public offering, the partnership agreement will require that the Partnership distribute all of its cash on hand at the end of each quarter, less reserves established by its managing general partner, subject to a sustainability requirement in the event the Partnership elects to increase the quarterly distribution amount. The amount of available cash may be greater or less than the aggregate amount necessary to make the minimum quarterly distribution on all common units, GP units and subordinated units.

Subsequent to the initial public offering, as currently structured, the Partnership expects to make minimum quarterly distributions of \$0.375 per common unit (\$1.50 per common unit on an annualized basis) to the extent the Partnership has sufficient available cash. In general, cash distributions will be made each quarter as follows:

First, to the holders of common units and GP units until each common unit and GP unit has received a minimum quarterly distribution of \$0.375 plus any arrearages from

prior quarters;

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If cash distributions exceed \$0.4313 per unit in a quarter, the Partnership's managing general partner, as holder of the IDRs, will receive increasing percentages, up to 48%, of the cash the Partnership distributes in excess of \$0.4313 per unit. However, the managing general partner will not be entitled to receive any distributions in respect of the IDRs until the Partnership has made cash distributions in an aggregate amount equal to the Partnership's adjusted operating surplus generated during the period from the closing of the Partnership's initial public offering until December 31, 2009.

During the subordination period, the subordinated units will not be entitled to receive any distributions until the common units and GP units have received the minimum quarterly distribution of \$0.375 per unit plus any arrearages from prior quarters. The subordination period begins on the closing date of the Partnership's initial public offering and will end once the Partnership meets the financial tests in the partnership agreement. When the subordination period ends, all subordinated units will convert into GP units or common units on a one-for-one basis, and the common units and GP units will no longer be entitled to arrearages.

If the Partnership meets the financial tests in the partnership agreement for any three consecutive four-quarter periods ending on or after the first quarter whose last day is at least three years after the closing of Partnership Offering, 25% of the subordinated GP units will convert into GP units on a one-for-one basis. If the Partnership meets these financial tests for any three consecutive four-quarter periods ending on or after the first quarter whose last day is at least four years after the closing of the Partnership Offering, an additional 25% of the subordinated GP units will convert into GP units on a one-for-one basis. The early conversion of the second 25% of the subordinated GP units may not occur until at least one year following the end of the last four-quarter period in respect of which the first 25% of the subordinated GP units were converted. If the subordinated GP units have converted into subordinated LP units at the time the financial tests are met they will convert into common units, rather than GP units. In addition, the subordination period will end if the managing general partner is removed as the managing general partner where cause (as defined in the partnership agreement) does not exist and no units held by any holder of subordinated units or its affiliates are voted in favor of that removal.

The partnership agreement authorizes the Partnership to issue an unlimited number of additional units and rights to buy units for the consideration and on the terms and conditions determined by the managing general partner without the approval of the unitholders.

The Partnership will distribute all cash received by it or its subsidiaries in respect of accounts receivable existing as of the closing of the initial public offering exclusively to its special general partner.

The managing general partner, together with the special general partner, manages and operates the Partnership. Common unitholders will only have limited voting rights on matters affecting the Partnership. In addition, common unitholders will have no right to elect either of the general partners or the managing general partner's directors on an annual or other continuing basis.

If at any time the managing general partner and its affiliates own more than 80% of the common units, the managing general partner will have the right, but not the obligation, to purchase all of the remaining common units at a purchase price equal to the greater of (x) the average of the daily closing price of the common units over the 20 trading days preceding the date three days before notice of exercise of the call right is first mailed and (y) the highest per-unit price paid by the managing general partner or any of its affiliates for common units during the 90-day period preceding the date such notice is first mailed.

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CVR ENERGY, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP) and in accordance with the rules and regulations of the SEC. The consolidated financial statements include the accounts of CVR Energy, Inc. and its majority-owned direct and indirect subsidiaries. The ownership interests of minority investors in its subsidiaries are recorded as minority interest. All intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnotes required for the complete financial statements under GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the December 31, 2007 audited consolidated financial statements and notes thereto included in CVR's Annual Report on Form 10-K/A for the year ended December 31, 2007.

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary to fairly present the financial position of the Company as of March 31, 2008 and December 31, 2007, the results of operations for the three months ended March 31, 2008 and 2007, and the cash flows for the three months ended March 31, 2008 and 2007.

Results of operations and cash flows for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2008 or any other interim period. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In connection with CVR's initial public offering, \$0.5 million of deferred offering costs for the three months ended March 31, 2007 were previously presented in operating activities in the interim financial statements. Such amounts have now been reflected as financing activities for the three months ended March 31, 2007 in the accompanying Consolidated Statements of Cash Flows. The impact on the prior financial statements of this revision is not considered material.

(2) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 states that fair value is the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). The standard's provisions for financial assets and financial liabilities, which became effective January 1, 2008, had no material impact on the Company's financial position or results of operations. At March 31, 2008, the only financial assets and financial liabilities that are measured at fair value on a recurring basis are the Company's derivative instruments. See Note 14, *Fair Value Measurements*.

In February 2008, the FASB issued FASB Staff Position 157-2 which defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). The Company will be required to adopt SFAS 157 for these nonfinancial assets and nonfinancial liabilities as of January 1, 2009. Management believes the adoption of SFAS 157 deferral provisions will not have a material impact on the Company's financial position or earnings.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Under this standard, an entity is required to provide additional information that will assist investors and other users of financial information to more easily understand the effect of the Company's choice to use fair value on its earnings. Further, the entity is required to display the fair value of those assets and liabilities for which the Company has chosen to use fair value on the face of the balance sheet. This standard does not eliminate the disclosure

requirements about fair value measurements included in SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. The provisions of SFAS 159 were effective for CVR as of January 1, 2008. The Company did not elect the fair value option under this standard upon adoption. Therefore, the adoption of SFAS 159 did not impact the Company's consolidated financial statements as of the quarter ended March 31, 2008.

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CVR ENERGY, INC. AND SUBSIDIARIES
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In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. This statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. This statement also requires that acquisition-related costs of the acquirer be recognized separately from the business combination and will generally be expensed as incurred. CVR will be required to adopt this statement as of January 1, 2009. The impact of adopting SFAS 141R will be limited to any future business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. SFAS 160 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 must be applied prospectively. SFAS 160 is effective for CVR beginning January 1, 2009. The Company is currently evaluating the potential impact of the adoption of SFAS 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. This statement will change the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, net earnings, and cash flows. The Company will be required to adopt this statement as of January 1, 2009. The adoption of SFAS 161 is not expected to have a material impact on the Company's consolidated financial statements.

(3) Share Based Compensation

Prior to CVR's initial public offering, CVR's subsidiaries were held and operated by CALLC, a limited liability company. Management of CVR holds an equity interest in CALLC. CALLC had issued non-voting override units to certain management members who held common units of CALLC. There were no required capital contributions for the override operating units. In connection with CVR's initial public offering in October 2007, CALLC was split into two entities: CALLC and CALLC II. In connection with this split, management's equity interest in CALLC, including both their common units and non-voting override units, was split so that half of management's equity interest was in CALLC and half was in CALLC II. CALLC was historically the primary reporting company and CVR's predecessor. In connection with the restructuring of the Company related to the Partnership, CALLC III issued non-voting override units to certain management members of CALLC III.

CVR, CALLC, CALLC II and CALLC III account for share-based compensation in accordance with SFAS No. 123(R), *Share-Based Payments* and EITF 00-12, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee*. CVR has recorded non-cash share-based compensation expense from CALLC, CALLC II and CALLC III.

In accordance with SFAS 123(R), CVR, CALLC, CALLC II and CALLC III apply a fair value based measurement method in accounting for share-based compensation. In accordance with EITF 00-12, CVR recognizes the costs of the share-based compensation incurred by CALLC, CALLC II and CALLC III on its behalf, primarily in selling, general, and administrative expenses (exclusive of depreciation and amortization), and a corresponding capital contribution, as the costs are incurred on its behalf, following the guidance in EITF 96-18, *Accounting for Equity Investments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with*

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Selling Goods or Services, which requires remeasurement at each reporting period. At March 31, 2008, CVR's common stock closing price was utilized to determine the fair value of the override units of CALLC and CALLC II. The estimated fair value per unit reflects a ratio of override units to shares of common stock. The estimated fair value of the override units of CALLC III has been determined using a binomial and probability-weighted expected return method which utilizes CALLC III's cash flow projections, which are representative of the nature of interests held by CALLC III in the Partnership.

The following describes the share-based compensation plans of CALLC, CALLC II, CALLC III and CRLLC, CVR's indirect wholly owned subsidiary.

919,630 override operating units at an adjusted benchmark value of \$11.31 per unit

In June 2005, CALLC issued 919,630 non-voting override operating units to certain management members holding common units of CALLC. There were no required capital contributions for the override operating units.

In accordance with SFAS 123(R), *Share Based Compensation*, using the Monte Carlo method of valuation, the estimated fair value of the override operating units on June 24, 2005 was \$3,605,000. Pursuant to the forfeiture schedule described below, CVR recognized compensation expense over the service period for each separate portion of the award for which the forfeiture restriction lapsed as if the award was, in substance, multiple awards. Compensation expense of \$(558,000) and \$285,000 was recognized for the three months ending March 31, 2008 and 2007, respectively.

In connection with the split of CALLC into two entities on October 16, 2007, management's equity interest in CALLC was split so that half of management's equity interest is in CALLC and half is in CALLC II. The restructuring resulted in a modification of the existing awards under SFAS 123(R). However, because the fair value of the modified award equaled the fair value of the original award before the modification, there was no accounting consequence as a result of the modification. However, due to the restructuring, the employees of CVR and the Partnership no longer hold share-based awards in a parent company. Due to the change in status of the employees related to the awards, CVR recognized compensation expense for the newly measured cost attributable to the remaining vesting (service) period prospectively from the date of the change in status.

Significant assumptions used in the valuation were as follows:

	Grant Date	Remeasurement Date
Estimated forfeiture rate	None	None
Explicit service period	Based on forfeiture schedule below	Based on forfeiture schedule below
Grant date fair value	\$5.16 per share	N/A
March 31, 2008 CVR closing stock price	N/A	\$23.03
March 31, 2008 estimated fair value	N/A	\$47.88 per share
Marketability and minority interest discounts	24% discount	15% discount
Volatility	37%	N/A

72,492 override operating units at a benchmark value of \$34.72 per unit

On December 28, 2006, CALLC issued 72,492 additional non-voting override operating units to a management member who held common units of CALLC. There were no required capital contributions for the override operating units.

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In accordance with SFAS 123(R), a combination of a binomial model and a probability-weighted expected return method which utilized CVR's cash flow projections resulted in an estimated fair value of the override operating units on December 28, 2006 of \$473,000. Management believed that this method was preferable for the valuation of the override units as it allowed a better integration of the cash flows with other inputs, including the timing of potential exit events that impact the estimated fair value of the override units. These override operating units are being accounted for the same as the override operating units with the adjusted benchmark value of \$11.31 per unit. In accordance with the accounting method noted above and pursuant to the forfeiture schedule described below, CVR recognized compensation expense of \$6,000 and \$100,000 for the periods ending March 31, 2008 and 2007, respectively.

Significant assumptions used in the valuation were as follows:

	Grant Date	Remeasurement Date
Estimated forfeiture rate	None	None
Explicit service period	Based on forfeiture schedule below	Based on forfeiture schedule below
Grant date fair value	\$8.15 per share	N/A
March 31, 2008 CVR closing stock price	N/A	\$23.03
March 31, 2008 estimated fair value	N/A	\$28.68 per share
Marketability and minority interest discounts	20% discount	15% discount
Volatility	41%	N/A

Override operating units are forfeited upon termination of employment for cause. In the event of all other terminations of employment, the override operating units are initially subject to forfeiture with the number of units subject to forfeiture reducing as follows:

Minimum Period Held	Forfeiture Rate
2 years	75%
3 years	50%
4 years	25%
5 years	0%

On the tenth anniversary of the issuance of override operating units, such units convert into an equivalent number of override value units.

1,839,265 override value units at an adjusted benchmark value of \$11.31 per unit

In June 2005, CALLC issued 1,839,265 non-voting override value units to certain management members who held common units of CALLC. There were no required capital contributions for the override value units.

In accordance with SFAS 123(R), using the Monte Carlo method of valuation, the estimated fair value of the override value units on June 24, 2005 was \$4,065,000. For the override value units, CVR is recognizing compensation expense ratably over the implied service period of 6 years. These override value units are being accounted for the same as the override operating units with an adjusted benchmark value of \$11.31 per unit. In

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accordance with the accounting method noted above, CVR recognized compensation expense of \$533,000 and \$169,000 for the three months ending March 31, 2008 and 2007, respectively.

Significant assumptions used in the valuation were as follows:

	Grant Date	Remeasurement Date
Estimated forfeiture rate	None	None
Derived service period	6 years	6 years
Grant date fair value	\$2.91 per share	N/A
March 31, 2008 CVR closing stock price	N/A	\$23.03
March 31, 2008 estimated fair value	N/A	\$47.88 per share
Marketability and minority interest discounts	24% discount	15% discount
Volatility	37%	N/A

144,966 override value units at a benchmark value of \$34.72 per unit

On December 28, 2006, CALLC issued 144,966 additional non-voting override value units to a management member who held common units of CALLC. There were no required capital contributions for the override value units.

In accordance with SFAS 123(R), a combination of a binomial model and a probability-weighted expected return method which utilized CVR's cash flow projections resulted in an estimated fair value of the override value units on December 28, 2006 of \$945,000. Management believed that this method was preferable for the valuation of the override units as it allowed a better integration of the cash flows with other inputs, including the timing of potential exit events that impacted the estimated fair value of the override units. These override value units are being accounted for the same as the override operating units with the adjusted benchmark value of \$11.31 per unit. In accordance with the accounting method noted above, CVR recognized compensation expense of \$91,000, and \$52,000 for the three months ending March 31, 2008 and 2007, respectively.

Significant assumptions used in the valuation were as follows:

	Grant Date	Remeasurement Date
Estimated forfeiture rate	None	None
Derived service period	6 years	6 years
Grant date fair value	\$8.15 per share	N/A
March 31, 2008 CVR closing stock price	N/A	\$23.03
March 31, 2008 estimated fair value	N/A	\$28.68 per share
Marketability and minority interest discounts	20% discount	15% discount
Volatility	41%	N/A

Unless the compensation committee of the board of directors of CVR takes an action to prevent forfeiture, override value units are forfeited upon termination of employment for any reason except that in the event of termination of employment by reason of death or disability, all override value units are initially subject to forfeiture with the number of units subject to forfeiture reducing as follows:

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Minimum period held	Subject to forfeiture percentage
2 years	75%
3 years	50%
4 years	25%
5 years	0%

At March 31, 2008, assuming no change in the estimated fair value at March 31, 2008, there was approximately \$59.2 million of unrecognized compensation expense related to non-voting override units. This is expected to be recognized over a remaining period of four years as follows (in thousands):

	Override Operating Units	Override Value Units
Nine months ending December 31, 2008	\$ 4,927	\$ 11,688
Year ending December 31, 2009	3,762	15,585
Year ending December 31, 2010	1,120	15,584
Year ending December 31, 2011		6,569
	\$ 9,809	\$ 49,426

138,281 override units with a benchmark amount of \$10

In October 2007, CALLC III issued 138,281 non-voting override units to certain management members who held common units of CALLC III. There were no required capital contributions for the override units.

In accordance with SFAS 123(R), *Share Based Compensation*, using a binomial and a probability-weighted expected return method which utilized CALLC III's cash flow projections, the estimated fair value of the operating units at March 31, 2008 was immaterial. CVR recognizes compensation costs for this plan based on the fair value of the awards at the end of each reporting period in accordance with EITF 00-12 using the guidance in EITF 96-18. In accordance with EITF 00-12, as a noncontributing investor, CVR also recognized income equal to the amount that its interest in the Partnership's net book value has increased (that is, its percentage share of the contributed capital recognized by the investee) as a result of the disproportionate funding of the compensation costs. This amount equaled the compensation expense recognized for these awards for the three months ended March 31, 2008. Pursuant to the forfeiture schedule reflected above, CVR recognized compensation expense over this service period for each portion of the award for which the forfeiture restriction has lapsed. As of March 31, 2008, these override units are fully vested.

Significant assumptions used in the valuation were as follows:

Estimated forfeiture rate	None
March 31, 2008 estimated fair value	\$0.004 per share
Marketability and minority interest discount	15% discount
Volatility	36.2%

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642,219 override units with a benchmark amount of \$10

On February 15, 2008, CALLC III issued 642,219 non-voting override units to certain management members of CALLC III. There were no required capital contributions for the override units.

In accordance with SFAS 123(R), *Share Based Compensation*, using a binomial and a probability-weighted expected return method which utilized CALLC III's cash flows projections, the estimated fair value of the operating units at March 31, 2008 was immaterial. CVR recognizes compensation costs for this plan based on the fair value of the awards at the end of each reporting period in accordance with EITF 00-12 using the guidance in EITF 96-18. In accordance with EITF 00-12, as a noncontributing investor, CVR also recognized income equal to the amount that its interest in the investee's net book value has increased (that is, its percentage share of the contributed capital recognized by the investee) as a result of the disproportionate funding of the compensation costs. CVR recognized compensation expense of \$600 for the three months ended March 31, 2008. Pursuant to the forfeiture schedule of the amended and restated partnership agreement of CALLC III, CVR recognized compensation expense over this service period for each portion of the award for which the forfeiture restriction has lapsed. Of the 642,219 units issued, 109,720 were immediately vested upon issuance and the remaining units are subject to the forfeiture schedule.

Significant assumptions used in the valuation were as follows:

Estimated forfeiture rate	None
Derived Service Period	Based on forfeiture schedule
March 31, 2008 estimated fair value	\$0.004 per share
Marketability and minority interest discount	15% discount
Volatility	36.2%

Phantom Unit Appreciation Plan

The Company, through a wholly-owned subsidiary, has a Phantom Unit Appreciation Plan whereby directors, employees, and service providers may be awarded phantom points at the discretion of the board of directors or the compensation committee. Holders of service phantom points have rights to receive distributions when holders of override operating units receive distributions. Holders of performance phantom points have rights to receive distributions when holders of override value units receive distributions. There are no other rights or guarantees, and the plan expires on July 25, 2015 or at the discretion of the compensation committee of the board of directors. As of March 31, 2008, the issued Profits Interest (combined phantom plan and override units) represented 15% of combined common unit interest and Profits Interest of CALLC and CALLC II. The Profits Interest was comprised of 11.1% and 3.9% of override interest and phantom interest, respectively. In accordance with SFAS 123(R), using the March 31, 2008 CVR stock closing price to determine the Company's equity value, through an independent valuation process, the service phantom interest and performance phantom interest were both valued at \$47.88 per point. CVR has recorded approximately \$28,670,000 and \$29,217,000 in personnel accruals as of March 31, 2008 and December 31, 2007, respectively. Compensation expense for the three month periods ending March 31, 2008 and 2007 related to the Phantom Unit Appreciation Plan was \$(547,000) and \$3,136,000, respectively.

At March 31, 2008, assuming no change in the estimated fair value at March 31, 2008, there was approximately \$20.6 million of unrecognized compensation expense related to the Phantom Unit Appreciation Plan. This is expected to be recognized over a remaining period of four years.

Long Term Incentive Plan

CVR has a Long Term Incentive Plan. There were no awards granted under this plan in the first quarter of 2008.

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On October 24, 2007, 17,500 shares of non-vested common stock having a fair value of \$365,000 at the date of grant were issued to outside directors. Although ownership of the shares does not transfer to the recipients until the shares have vested, recipients have dividend and voting rights on these shares from the date of grant. The fair value of each share of non-vested common stock was measured based on the market price of the common stock as of the date of grant and will be amortized over the respective vesting periods. One-third will vest on October 24, 2008, 2009 and 2010, respectively.

Options to purchase 10,300 shares of common stock at an exercise price of \$19.00 per share were granted to outside directors on October 22, 2007. Options to purchase 8,600 shares of common stock at an exercise price of \$24.73 per share were granted to outside directors on December 21, 2007.

During the quarter there were no issuances, forfeitures or vesting of stock options or non-vested shares.

As of March 31, 2008, there was approximately \$0.2 million of total unrecognized compensation cost related to non-vested shares to be recognized over a weighted-average period of approximately one year. Compensation expense recorded for the three month periods ending March 31, 2008 and 2007 related to the non-vested stock was \$56,000 and \$0, respectively. Compensation expense for the three month periods ending March 31, 2008 and 2007 related to stock options was \$36,000 and \$0, respectively.

(4) Inventories

Inventories consist primarily of crude oil, blending stock and components, work in progress, fertilizer products, and refined fuels and by-products. Inventories are valued at the lower of the first-in, first-out (FIFO) cost, or market, for fertilizer products, refined fuels and by-products for all periods presented. Refinery unfinished and finished products inventory values were determined using the ability-to-bare process, whereby raw materials and production costs are allocated to work-in-process and finished products based on their relative fair values. Other inventories, including other raw materials, spare parts, and supplies, are valued at the lower of moving-average cost, which approximates FIFO, or market. The cost of inventories includes inbound freight costs.

Inventories consisted of the following (in thousands):

	March 31, 2008	December 31, 2007
Finished goods	\$ 123,814	\$ 109,394
Raw materials and catalysts	123,042	92,104
In-process inventories	17,045	29,817
Parts and supplies	24,514	23,340
	\$ 288,415	\$ 254,655

(5) Property, Plant, and Equipment

A summary of costs for property, plant, and equipment is as follows (in thousands):

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	March 31, 2008	December 31, 2007
Land and improvements	\$ 13,170	\$ 13,058
Buildings	19,351	17,541
Machinery and equipment	1,277,292	1,108,858
Automotive equipment	5,752	5,171
Furniture and fixtures	6,420	6,304
Leasehold improvements	929	929
Construction in progress	30,859	182,046
	1,353,773	1,333,907
Accumulated depreciation	161,231	141,733
	\$ 1,192,542	\$ 1,192,174

Capitalized interest recognized as a reduction in interest expense for the periods ended March 31, 2008, and March 31, 2007 totaled approximately \$1,118,000 and \$4,079,000, respectively.

(6) Planned Major Maintenance Costs

The direct-expense method of accounting is used for planned major maintenance activities. Maintenance costs are recognized as expense when maintenance services are performed. The Coffeyville nitrogen fertilizer plant last completed a major scheduled turnaround in the third quarter of 2006 and is scheduled to complete a turnaround in the fourth quarter of 2008. The Coffeyville refinery started a major scheduled turnaround in February 2007 with completion in April 2007. Costs of \$66,003,000 associated with the 2007 refinery turnaround were included in direct operating expenses (exclusive of depreciation and amortization) for the three months ending March 31, 2007.

(7) Cost Classifications

Cost of product sold (exclusive of depreciation and amortization) includes cost of crude oil, other feedstocks, blendstocks, pet coke expense and freight and distribution expenses. Cost of product sold excludes depreciation and amortization of \$600,000 and \$619,000 for the three months ended March 31, 2008 and March 31, 2007, respectively.

Direct operating expenses (exclusive of depreciation and amortization) includes direct costs of labor, maintenance and services, energy and utility costs, environmental compliance costs as well as chemicals and catalysts and other direct operating expenses. Direct operating expenses excludes depreciation and amortization of \$18,703,000 and \$13,530,000 for the three months ended March 31, 2008 and March 31, 2007, respectively.

Selling, general and administrative expenses (exclusive of depreciation and amortization) consists primarily of legal expenses, treasury, accounting, marketing, human resources and maintaining the corporate offices in Texas and Kansas. Selling, general and administrative expenses excludes depreciation and amortization of \$332,000 and \$86,000 for the three months ended March 31, 2008 and March 31, 2007, respectively.

(8) Note Payable and Capital Lease Obligations

The Company entered into an insurance premium finance agreement with Cananwill, Inc. in July 2007 to finance the purchase of its property, liability, cargo and terrorism policies. The original balance of the note was \$7.6 million and required repayment in nine equal installments with final payment due in April 2008. The balance due was paid in full in April 2008. As of March 31, 2008 and December 31, 2007, \$0.8 and \$3.4 million related to this

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insurance premium finance agreement was included in note payable and capital lease obligations on the Consolidated Balance Sheet, respectively.

The Company entered into two capital leases in 2007 to lease platinum required in the manufacturing of a new catalyst. The recorded lease obligations fluctuate with the platinum market price. The leases will terminate on the date an equal amount of platinum is returned to each lessor, with the difference to be paid in cash. One lease was settled and terminated in January 2008. At March 31, 2008 and December 31, 2007 the lease obligations were recorded at approximately \$10.4 million and \$8.2 million on the Consolidated Balance Sheets, respectively.

(9) Flood and Insurance Related Matters

On June 30, 2007, torrential rains in southeast Kansas caused the Verdigris River to overflow its banks and flood the town of Coffeyville, Kansas. As a result, the Company's refinery and nitrogen fertilizer plant were severely flooded, resulting in significant damage to the refinery assets. The nitrogen fertilizer facility also sustained damage, but to a much lesser degree. The Company maintained property damage insurance which included damage caused by a flood, of up to \$300 million per occurrence, subject to deductibles and other limitations. The deductible associated with the property damage was \$2.5 million.

Management continues to work closely with the Company's insurance carriers and claims adjusters to ascertain the full amount of insurance proceeds due to the Company as a result of the damages and losses. At March 31, 2008, total accounts receivable from insurance was \$85.7 million. The receivable balance is segregated between current and long-term in the Company's Consolidated Balance Sheet in relation to the nature and classification of the items to be settled. Management believes the recovery of the receivable from the insurance carriers is probable. Approximately \$11.4 million of the receivable recorded at March 31, 2008 relates to the crude oil discharge and the remaining \$74.3 million relates to the flood damage to the Company's facilities. While management believes that the Company's property insurance should cover substantially all of the estimated total physical damage to the property, the Company's insurance carriers have cited potential coverage limitations and defenses that might preclude such a result.

The Company's insurance policies also provide coverage for interruption to the business, including lost profits, and reimbursement for other expenses and costs the Company has incurred relating to the damages and losses suffered for business interruption. This coverage, however, only applies to losses incurred after a business interruption of 45 days. Because the fertilizer plant was restored to operation within this 45-day period and the refinery restarted its last operating unit in 48 days, a substantial portion of the lost profits incurred because of the flood cannot be claimed under insurance. The Company continues to assess its policies to determine how much, if any, of its lost profits after the 45-day period are recoverable. No amounts for recovery of lost profits under the Company's business interruption policy have been recorded in the accompanying consolidated financial statements.

The Company has recorded pretax costs in total of approximately \$47.3 million associated with the flood and related crude oil discharge as discussed in Note 12, Commitments and Contingent Liabilities, including \$5.8 million of net pretax costs in the first quarter of 2008. These amounts are net of anticipated insurance recoveries of \$107.2 million including \$1.8 million of recoveries for the first quarter of 2008. These costs are reported in Net costs associated with flood in the Consolidated Statements of Operations.

Total gross costs recorded due to the flood and related oil discharge that were included in the Consolidated Statements of Operations for the three months ended March 31, 2008 were \$7.6 million. Of these gross costs for the three month period ended March 31, 2008, \$3.8 million were associated with repair and other matters as a result of the flood damage to the Company's facilities. Included in this cost was \$ 0.3 million of professional fees and \$3.5 million for other repair and related costs. There were also \$3.8 million of costs recorded for the three month period ended March 31, 2008 related to the third party and property damage remediation as a result of the crude oil discharge.

Below is a summary of the gross cost and reconciliation of the insurance receivable (in millions):

	Total Costs	For the Three Months Ended March 31, 2008
Total gross costs incurred	\$ 154.5	\$ 7.6
Total insurance receivable	(107.2)	(1.8)
Net costs associated with the flood	\$ 47.3	\$ 5.8
		Receivable Reconciliation
Total insurance receivable		\$ 107.2
Less insurance proceeds received		(21.5)
Insurance receivable		\$ 85.7

The Company anticipates that approximately \$2.1 million in additional third party costs related to the repair of flood damaged property will be recorded in future periods. Although the Company believes that it will recover

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substantial sums under its insurance policies, the Company is not sure of the ultimate amount or timing of such recovery because of the difficulty inherent in projecting the ultimate resolution of the Company's claims. The difference between what the Company ultimately receives under its insurance policies compared to what has been recorded and described above could be material to the consolidated financial statements.

In 2007, the Company had received insurance proceeds of \$10.0 million under its property insurance policy and \$10.0 million under its environmental policies related to recovery of certain costs associated with the crude oil discharge. In the first quarter of 2008, the Company received \$1.5 million under its Builder's Risk Insurance Policy. See Note 12, "Commitments and Contingent Liabilities" for additional information regarding environmental and other contingencies relating to the crude oil discharge that occurred on July 1, 2007.

(10) Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertain Tax Positions* an interpretation of FASB No. 109 (FIN 48) on January 1, 2007. The adoption of FIN 48 did not affect the Company's financial position or results of operations. The Company does not have any unrecognized tax benefits as of March 31, 2008.

The Company did not accrue or recognize any amounts for interest or penalties in its financial statements for the three months ended March 31, 2008. The Company will classify interest to be paid on an underpayment of income taxes and any related penalties as income tax expense if it is determined, in a subsequent period, that a tax position is not more likely than not of being sustained.

CVR and its subsidiaries file U.S. federal and various state income tax returns. The Company is currently under a U.S. federal income tax examination for its 2005 tax year. The Company has not been subject to any other U.S. federal, state or local income tax examinations by tax authorities for any tax year. The U.S. federal and state tax years subject to examination are 2004 to 2007. As of March 31, 2008, no taxing authority has proposed any adjustments to the Company's tax positions.

The Company's effective tax rates for the three months ended March 31, 2008 and 2007 were 23.6% and 23.4%, respectively, as compared to the federal statutory tax rate of 35%. The effective tax rate is lower than the statutory rate due to federal income tax credits available to small business refiners related to the production of ultra low sulfur diesel fuel and Kansas state incentives generated under the High Performance Incentive Program (HPIP).

(11) Earnings (Loss) Per Share

On October 26, 2007, the Company completed the initial public offering of 23,000,000 shares of its common stock. Also, in connection with the initial public offering, a reorganization of entities under common control was consummated whereby the Company became the indirect owner of the subsidiaries of CALLC and CALLC II and all of their refinery and fertilizer assets. This reorganization was accomplished by the Company issuing 62,866,720 shares of its common stock to CALLC and CALLC II, its majority stockholders, in conjunction with a 628,667.20 for 1 stock split and the merger of two newly formed direct subsidiaries of CVR. Immediately following the completion of the offering, there were 86,141,291 shares of common stock outstanding, excluding non-vested shares issued. See Note 1, "Organization and History of Company and Basis of Presentation".

Earnings per share for the three months ended March 31, 2008 is calculated as noted below.

	Earnings	Shares	Per Share
Basic earnings per share	\$22,221,000	86,141,291	\$0.26
Diluted earnings per share	\$22,221,000	86,158,791	\$0.26

Outstanding stock options totaling 18,900 common shares were excluded from the diluted earnings per share calculation for the three months ended March 31, 2008 as they were antidilutive.

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The computation of basic and diluted loss per share for the quarter ended March 31, 2007 is calculated on a pro forma basis assuming the capital structure in place after the completion of the offering was in place for the entire period.

Pro forma loss per share for the three months ended March 31, 2007 is calculated as noted below. For the three months ended March 31, 2007, 17,500 non-vested shares of common stock and 18,900 common stock options have been excluded from the calculation of pro forma diluted earnings per share because the inclusion of such common stock equivalents in the number of weighted average shares outstanding would be anti-dilutive:

	March 31, 2007 (Unaudited)
Net (loss)	\$ (154,373,000)
Pro forma weighted average shares outstanding:	
Original CVR shares of common stock	100
Effect of 628,667.20 to 1 stock split	62,866,620
Issuance of shares of common stock to management in exchange for subsidiary shares	247,471
Issuance of shares of common stock to employees	27,100
Issuance of shares of common stock in the initial public offering	23,000,000
Basic weighted average shares outstanding	86,141,291
Dilutive securities issuance of non-vested shares of common stock to board of directors	
Diluted weighted average shares outstanding	86,141,291
Pro forma basic loss per share	\$ (1.79)
Pro forma dilutive loss per share	\$ (1.79)

(12) Commitments and Contingent Liabilities

The minimum required payments for the Company's lease agreements and unconditional purchase obligations are as follows (in thousands):

	Operating	Unconditional
	Leases	Purchase
		Obligations
Nine months ending December 31, 2008	\$ 2,833	\$ 20,757
Year ending December 31, 2009	3,266	28,229
Year ending December 31, 2010	1,680	55,762
Year ending December 31, 2011	948	53,939
Year ending December 31, 2012	196	51,333
Thereafter	10	372,325
	\$ 8,933	\$ 582,345

The Company leases various equipment and real properties under long-term operating leases. For the three months ended March 31, 2008 and 2007, lease expense totaled \$1,071,000 and \$1,007,000, respectively. The lease

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agreements have various remaining terms. Some agreements are renewable, at the Company's option, for additional periods. It is expected, in the ordinary course of business, that leases will be renewed or replaced as they expire.

From time to time, the Company is involved in various lawsuits arising in the normal course of business, including matters such as those described below under "Environmental, Health, and Safety Matters". Liabilities related to such lawsuits are recognized when the related costs are probable and can be reasonably estimated. It is possible that Management's estimates of the outcomes will change within the next year due to uncertainties inherent in litigation and settlement negotiations. In the opinion of management, the ultimate resolution of the Company's litigation matters is not expected to have a material adverse effect on the accompanying consolidated financial statements. There can be no assurance that management's beliefs or opinions with respect to liability for potential litigation matters are accurate.

Crude oil was discharged from the Company's refinery on July 1, 2007 due to the short amount of time available to shut down and secure the refinery in preparation for the flood that occurred on June 30, 2007. As a result of the crude oil discharge, two putative class action lawsuits (one federal and one state) were filed seeking unspecified damages with class certification under applicable law for all residents, domiciliaries and property owners of Coffeyville, Kansas who were impacted by the oil release.

The Company filed a motion to dismiss the federal suit for lack of subject matter jurisdiction. On November 6, 2007, the judge in the federal class action lawsuit granted the Company's motion to dismiss for lack of subject matter jurisdiction and no appeal was taken.

With respect to the state suit, the District Court of Montgomery County, Kansas conducted an evidentiary hearing on the issue of class certification on October 24 and 25, 2007 and ruled against the class certification leaving only the original two plaintiffs. To date no other lawsuits have been filed as a result of flood related damages.

As a result of the crude oil discharge that occurred on July 1, 2007, the Company entered into an administrative order on consent (Consent Order) with the Environmental Protection Agency (EPA) on July 10, 2007. As set forth in the Consent Order, the EPA concluded that the discharge of oil from the Company's refinery caused and may continue to cause an imminent and substantial threat to the public health and welfare. Pursuant to the Consent Order, the Company agreed to perform specified remedial actions to respond to the discharge of crude oil from the Company's refinery. The Company is currently remediating the crude oil discharge and expects its primary remedial actions to continue through May 2008 with continuing minor activities for a period thereafter.

The Company engaged experts to assess and test the areas affected by the crude oil spill. The Company commenced a program on July 19, 2007 to purchase approximately 330 homes and other commercial properties in connection with the flood and the crude oil release. Total costs recorded to date are \$13.4 million, which include costs incurred in 2007 of \$13.1 million and costs for the three months ended March 31, 2008 of \$0.3 million. Total costs recorded related to personal property claims were approximately \$1.7 million, which were all recorded in 2007. Total costs recorded related to estimated commercial property to be purchased and associated claims were approximately \$3.6 million, which were all recorded in 2007. The total amount of gross costs recorded for the three months ended March 31, 2008 related to the residential and commercial purchase and property claims program were approximately \$0.3 million. As the crude oil spill took place in the second and third quarter of 2007, no costs associated with the spill were incurred in the first quarter of 2007.

As of March 31, 2008, the total costs recorded for obligations other than the purchase of homes, commercial properties and related personal property claims approximated \$30.0 million. The Company has recorded as of March 31, 2008 total costs (net of anticipated insurance recoveries recorded of \$21.4 million) associated with remediation and third party property damage claims resolution of approximately \$27.3 million. The Company has not estimated or accrued for, because management does not believe it is probable that there will be

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any potential fines, penalties or claims that may be imposed or brought by regulatory authorities or possible additional damages arising from class action lawsuits related to the flood.

It is difficult to estimate the ultimate cost of environmental remediation resulting from the crude oil discharge or the cost of third party property damage that the Company will ultimately be required to pay. The costs and damages that the Company will ultimately pay may be greater than the amounts described and projected above. Such excess costs and damages could be material to the consolidated financial statements.

The Company is seeking insurance coverage for this release and for the ultimate costs for remediation, property damage claims, cleanup, resolution of class action lawsuits, and other claims brought by regulatory authorities. Although the Company believes that it will recover substantial sums under its environmental and liability insurance policies, the Company is not sure of the ultimate amount or timing of such recovery because of the difficulty inherent in projecting the ultimate resolution of the Company's claims. The difference between what the Company receives under its insurance policies compared to what has been recorded and described above could be material to the consolidated financial statements. The Company received \$10.0 million of insurance proceeds under its environmental insurance policy in 2007.

Environmental, Health, and Safety (EHS) Matters

CVR is subject to various stringent federal, state, and local EHS rules and regulations. Liabilities related to EHS matters are recognized when the related costs are probable and can be reasonably estimated. Estimates of these costs are based upon currently available facts, existing technology, site-specific costs, and currently enacted laws and regulations. In reporting EHS liabilities, no offset is made for potential recoveries. Such liabilities include estimates of the Company's share of costs attributable to potentially responsible parties which are insolvent or otherwise unable to pay. All liabilities are monitored and adjusted regularly as new facts emerge or changes in law or technology occur.

CVR owns and/or operates manufacturing and ancillary operations at various locations directly related to petroleum refining and distribution and nitrogen fertilizer manufacturing. Therefore, CVR has exposure to potential EHS liabilities related to past and present EHS conditions at some of these locations.

Through an Administrative Order issued under the Resource Conservation and Recovery Act, as amended (RCRA), CVR is a potential party responsible for conducting corrective actions at its Coffeyville, Kansas and Phillipsburg, Kansas facilities. In 2005, CRNF agreed to participate in the State of Kansas Voluntary Cleanup and Property Redevelopment Program (VCPRP) to address a reported release of urea ammonium nitrate (UAN) at the Coffeyville UAN loading rack. As of March 31, 2008 and December 31, 2007, environmental accruals of \$7,713,000 and \$7,646,000, respectively, were reflected in the consolidated balance sheets for probable and estimated costs for remediation of environmental contamination under the RCRA Administrative Order and the VCPRP, including amounts totaling \$2,789,000 and \$2,802,000, respectively, included in other current liabilities. The Company's accruals were determined based on an estimate of payment costs through 2033, which scope of remediation was arranged with the EPA and are discounted at the appropriate risk free rates at March 31, 2008 and December 31, 2007, respectively. The accruals include estimated closure and post-closure costs of \$1,580,000 and \$1,549,000 for two landfills at March 31, 2008 and December 31, 2007, respectively. The estimated future payments for these required obligations are as follows (in thousands):

	Amount
Nine months ending December 31, 2008	2,617
Year ending December 31, 2009	687
Year ending December 31, 2010	1,556
Year ending December 31, 2011	313
Year ending December 31, 2012	313
Thereafter	3,282

Undiscounted total	8,768
Less amounts representing interest at 3.13%	1,055
Accrued environmental liabilities at March 31, 2008	\$ 7,713

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Management periodically reviews and, as appropriate, revises its environmental accruals. Based on current information and regulatory requirements, management believes that the accruals established for environmental expenditures are adequate.

The EPA has issued regulations intended to limit amounts of sulfur in diesel and gasoline. The EPA has granted the Company a petition for a technical hardship waiver with respect to the date for compliance in meeting the sulfur-lowering standards. CVR spent approximately \$17 million in 2007, \$79 million in 2006 and \$27 million in 2005 to comply with the low-sulfur rules. CVR has spent \$2 million in the first three months of 2008 and based on information currently available, anticipates spending approximately \$17 million in the last nine months of 2008 and \$26 million in 2009 to comply with the low-sulfur rules. The entire amounts are expected to be capitalized.

Environmental expenditures are capitalized when such expenditures are expected to result in future economic benefits. For the three month periods ended March 31, 2008 and 2007, capital expenditures were \$15,473,000 and \$50,687,000, respectively, and were incurred to improve the environmental compliance and efficiency of the operations.

CVR believes it is in substantial compliance with existing EHS rules and regulations. There can be no assurance that the EHS matters described above or other EHS matters which may develop in the future will not have a material adverse effect on the Company's business, financial condition, or results of operations.

(13) Derivative Financial Instruments

Loss on derivatives consisted of the following (in thousands):

	Three Months Ended March 31,	
	2008	2007
Realized loss on swap agreements	\$ (21,516)	\$ (8,534)
Unrealized loss on swap agreements	(13,907)	(119,704)
Realized loss on other agreements	(7,993)	(2,763)
Unrealized gain (loss) on other agreements	1,157	(5,332)
Realized gain on interest rate swap agreements	522	1,241
Unrealized loss on interest rate swap agreements	(6,134)	(1,867)
Total loss on derivatives	\$ (47,871)	\$ (136,959)

CVR is subject to price fluctuations caused by supply conditions, weather, economic conditions, and other factors and to interest rate fluctuations. To manage price risk on crude oil and other inventories and to fix margins on certain future production, CVR may enter into various derivative transactions. In addition, CALLC, as further described below, entered into certain commodity derivative contracts and an interest rate swap as required by the long-term debt agreements.

CVR has adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133 imposes extensive record-keeping requirements in order to designate a derivative financial instrument as a hedge. CVR holds derivative instruments, such as exchange-traded crude oil futures, certain over-the-counter forward swap agreements and interest rate swap agreements, which it believes provide an economic hedge on future transactions, but such instruments are not designated as hedges. Gains or losses related to the

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change in fair value and periodic settlements of these derivative instruments are classified as loss on derivatives, net in the Consolidated Statements of Operations.

At March 31, 2008, CVR's Petroleum Segment held commodity derivative contracts (swap agreements) for the period from July 1, 2005 to June 30, 2010 with a related party (see Note 15, Related Party Transactions). The swap agreements were originally executed by CALLC on June 16, 2005 and were required under the terms of the Company's long-term debt agreements. The notional quantities on the date of execution were 100,911,000 barrels of crude oil, 1,889,459,250 gallons of heating oil and 2,348,802,750 gallons of unleaded gasoline. The swap agreements were executed at the prevailing market rate at the time of execution and management believes the swap agreements provide an economic hedge on future transactions. At March 31, 2008 the notional open amounts under the swap agreements were 36,190,000 barrels of crude oil, 759,990,000 gallons of heating oil and 759,990,000 gallons of unleaded gasoline. These positions resulted in unrealized losses for the three months ended March 31, 2008 and 2007 of \$13,907,000 and \$119,704,000, respectively. The Petroleum Segment recorded \$21,516,000 and \$8,534,000 in realized losses on these swap agreements for the three month periods ended March 31, 2008 and 2007, respectively.

The Petroleum Segment also recorded mark-to-market net losses, in loss on derivatives, net exclusive of the swap agreements described above and the interest rate swaps described in the following paragraph, of \$6,836,000 and \$8,095,000, for the three month periods ended March 31, 2008 and 2007, respectively. All of the activity related to the commodity derivative contracts is reported in the Petroleum Segment.

At March 31, 2008, CRLLC held derivative contracts known as interest rate swap agreements that converted CRLLC's floating-rate bank debt into 4.195% fixed-rate debt on a notional amount of \$325,000,000. Half of the agreements are held with a related party (as described in Note 15, Related Party Transactions), and the other half are held with a financial institution that is a lender under CRLLC's long-term debt agreements. The swap agreements carry the following terms:

Period covered	Notional amount	Fixed interest rate
June 30, 2007 to March 31, 2008	325 million	4.195%
March 31, 2008 to March 30, 2009	250 million	4.195%
March 31, 2009 to March 30, 2010	180 million	4.195%
March 31, 2010 to June 29, 2010	110 million	4.195%

CVR pays the fixed rates listed above and receives a floating rate based on three-month LIBOR rates, with payments calculated on the notional amounts listed above. The notional amounts do not represent actual amounts exchanged by the parties but instead represent the amounts on which the contracts are based. The swap is settled quarterly and marked-to-market at each reporting date, and all unrealized gains and losses are currently recognized in income. Transactions related to the interest rate swap agreements were not allocated to the Petroleum or Nitrogen Fertilizer segments. Mark-to-market net losses on derivatives and quarterly settlements were \$5,612,000 and \$626,000 for the three month periods ended March 31, 2008 and 2007, respectively.

(14) Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement established a single authoritative definition of fair value when accounting rules require the use of fair value, set out a framework for measuring fair value, and required additional disclosures about fair value measurements. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an

orderly transaction between market participants.

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The Company adopted SFAS 157 on January 1, 2008 with the exception of nonfinancial assets and nonfinancial liabilities that were deferred by FASB Staff Position 157-2 as discussed in Note 2 to the Condensed Consolidated Financial Statements. As of March 31, 2008, the Company has not applied SFAS 157 to goodwill and intangible assets in accordance with FASB Staff Position 157-2.

SFAS 157 discusses valuation techniques, such as the market approach (prices and other relevant information generated by market conditions involving identical or comparable assets or liabilities), the income approach (techniques to convert future amounts to single present amounts based on market expectations including present value techniques and option-pricing), and the cost approach (amount that would be required to replace the service capacity of an asset which is often referred to as replacement cost). SFAS 157 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1 Quoted prices in active market for identical assets and liabilities

Level 2 Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

Level 3 Significant unobservable inputs (including the Company's own assumptions in determining the fair value)

The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, as of March 31, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash Flow Swap		\$(13,907)		\$(13,907)
Interest Rate Swap		(6,134)		(6,134)
Other Derivative Agreements		1,157		1,157

The Company's derivative contracts giving rise to assets or liabilities under Level 2 are valued using pricing models based on other significant observable inputs.

(15) Related Party Transactions

GS Capital Partners V Fund, L.P. and related entities (GS) and Kelso Investment Associates VII, L.P. and related entity (Kelso) are majority owners of CVR.

On June 24, 2005, CALLC entered into management services agreements with each of GS and Kelso pursuant to which GS and Kelso agreed to provide CALLC with managerial and advisory services. In consideration for these services, an annual fee of \$1.0 million was paid to each of GS and Kelso, plus reimbursement for any out-of-pocket expenses. The agreements terminated upon consummation of CVR's initial public offering on October 26, 2007. Relating to the agreements, \$0 and \$538,000 were expensed in selling, general, and administrative expenses (exclusive of depreciation and amortization) for the three months ended March 31, 2008 and March 31, 2007, respectively. The Company paid a one-time fee of \$5.0 million to each of GS and Kelso by reason of the termination of the agreements on October 26, 2007.

CALLC entered into certain crude oil, heating oil and gasoline swap agreements with a subsidiary of GS. Additional swap agreements with this subsidiary of GS were entered into on June 16, 2005, with an expiration date of June 30, 2010 (as described in Note 13, Derivative Financial Instruments). These agreements were assigned to Coffeyville Resources LLC, a subsidiary of CVR. Losses totaling \$35,423,000 and \$128,238,000 were recognized related to these swap agreements for the three months ended March 31, 2008 and 2007, respectively, and are

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reflected in loss on derivatives, net in the Consolidated Statements of Operations. In addition, the Consolidated Balance Sheet at March 31, 2008 and December 31, 2007 includes liabilities of \$294,984,000 and \$262,415,000, respectively, included in current payable to swap counterparty and \$76,411,000 and \$88,230,000, respectively, included in long-term payable to swap counterparty.

On June 26, 2007, the Company entered into a letter agreement with the subsidiary of GS to defer a \$45.0 million payment owed on July 8, 2007 to the GS subsidiary for the period ended September 30, 2007 until August 7, 2007. Interest accrued on the deferred amount of \$45.0 million at the rate of LIBOR plus 3.25%.

As a result of the flood and the related temporary cessation of business operations, the Company entered into a subsequent letter agreement on July 11, 2007 in which the GS subsidiary agreed to defer an additional \$43.7 million of the balance owed for the period ending June 30, 2007. This deferral was entered into on the conditions that each of GS and Kelso agreed to guarantee one half of the payment and that interest accrued on the \$43.7 million from July 9, 2007 to the date of payment at the rate of LIBOR plus 1.50%.

On July 26, 2007, the Company entered into a letter agreement in which the GS subsidiary agreed to defer to September 7, 2007 both the \$45.0 million payment due August 7, 2007 along with accrued interest and the \$43.7 million payment due July 25, 2007 with the related accrued interest. These payments were deferred on the conditions that GS and Kelso each agreed to guarantee one half of the payments. Additionally, interest accrues on the amount from July 26, 2007 to the date of payment at the rate of LIBOR plus 1.50%.

On August 23, 2007, the Company entered into an additional letter agreement in which the GS subsidiary agreed to further defer both deferred payment amounts and the related accrued interest with payment being due on January 31, 2008. Additionally, it was further agreed that the \$35 million payment to settle hedged volumes through August 15, 2007 would be deferred with payment being due on January 31, 2008. Interest accrues on all deferral amounts through the payment due date at LIBOR plus 1.50%. GS and Kelso have each agreed to guarantee one half of all payment deferrals. The GS subsidiary further agreed to defer these payment amounts to August 31, 2008 if the Company closed an initial public offering prior to January 31, 2008. Due to the consummation of the initial public offering on October 26, 2007, these payment amounts are now deferred until August 31, 2008; however, the company is required to use 37.5% of its consolidated excess cash flow for any quarter after January 31, 2008 to prepay the deferral amounts. As of March 31, 2008 the Company was not required to pay any portion of the deferred amount.

These deferred payment amounts are included in the Consolidated Balance Sheet at March 31, 2008 in current payable to swap counterparty. The deferred balance owed to GS, excluding accrued interest payable, totalled \$123.7 million at March 31, 2008. Approximately \$4,874,000 of accrued interest payable related to the deferred payments is included in other current liabilities at March 31, 2008.

On June 30, 2005, CALLC entered into three interest-rate swap agreements with the same subsidiary of GS (as described in Note 13, Derivative Financial Instruments). Losses totaling \$2,813,000 and \$313,000 were recognized related to these swap agreements for the three months ended March 31, 2008 and 2007, respectively, and are reflected in loss on derivatives, net in the Consolidated Statements of Operations. In addition, the Consolidated Balance Sheet at March 31, 2008 and December 31, 2007 includes \$1,778,000 and \$371,000, respectively, in other current liabilities and \$2,223,000 and \$557,000, respectively, in other long-term liabilities related to the same agreements.

Effective December 30, 2005, the Company entered into a crude oil supply agreement with a subsidiary of GS (Supplier). Under the agreement, the parties agreed to negotiate the cost of each barrel of crude oil to be purchased from a third party, and CVR agreed to pay Supplier a fixed supply service fee per barrel over the negotiated cost of each barrel of crude purchased. The cost is adjusted further using a spread adjustment calculation based on the time period the crude oil is estimated to be delivered to the refinery, other market conditions, and other factors deemed appropriate. The initial term of the agreement was to December 31, 2006. CVR and Supplier agreed to extend

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the term of the supply agreement for an additional 12 month period, from January 1, 2007 through December 31, 2007, and in connection with the extension amended certain terms and conditions of the supply agreement. On December 31, 2007, CVR and supplier entered into an amended and restated crude oil supply agreement. The terms of the agreement remained substantially the same. \$241,000 and \$360,000 were recorded on the consolidated balance sheet at March 31, 2008 and December 31, 2007, respectively, in prepaid expenses and other current assets for prepayment of crude oil. In addition, \$62,039,000 and \$43,773,000 were recorded in inventory and \$27,909,000 and \$42,666,000 were recorded in accounts payable at March 31, 2008 and December 31, 2007, respectively. Expenses associated with this agreement, included in cost of product sold (exclusive of depreciation and amortization) for the three month period ended March 31, 2008 and 2007 totaled \$766,213,000 and \$176,307,000, respectively. Interest expense associated with this agreement for the three month period ended March 31, 2008 and 2007 totaled \$14,000 and \$(1,029,000), respectively.

As a result of the refinery turnaround in early 2007, CVR needed to delay the processing of quantities of crude oil that it purchased from various small independent producers. In order to facilitate this anticipated delay, CVR entered into a purchase, storage and sale agreement for gathered crude oil, dated March 20, 2007, with J. Aron, a subsidiary of GS. Pursuant to the terms of the agreement, J. Aron agreed to purchase gathered crude oil from CVR, store the gathered crude oil and sell CVR the gathered crude oil on a forward basis.

(16) Business Segments

CVR measures segment profit as operating income for Petroleum and Nitrogen Fertilizer, CVR's two reporting segments, based on the definitions provided in SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. All operations of the segments are located within the United States.

Petroleum

Principal products of the Petroleum Segment are refined fuels, propane, and petroleum refining by-products including pet coke. CVR sells the pet coke to the Partnership for use in the manufacturing of nitrogen fertilizer at the adjacent nitrogen fertilizer plant. For CVR, a per-ton transfer price is used to record intercompany sales on the part of the Petroleum Segment and corresponding intercompany cost of product sold (exclusive of depreciation and amortization) for the Nitrogen Fertilizer Segment. The per ton transfer price paid, pursuant to the coke supply agreement that became effective October 24, 2007, is based on the lesser of a coke price derived from the priced received by the fertilizer segment for UAN (subject to a UAN based price ceiling and floor) and a coke price index for pet coke. Prior to October 25, 2007 intercompany sales were based upon a price of \$15 per ton. The intercompany transactions are eliminated in the Other Segment. Intercompany sales included in petroleum net sales were \$2,806,000 and \$580,000 for the three months ended March 31, 2008 and 2007, respectively.

Intercompany cost of product sold (exclusive of depreciation and amortization) for the hydrogen sales described below under Nitrogen Fertilizer was \$5,291,000 and \$2,829,000 for the three months ended March 31, 2008 and 2007, respectively.

Nitrogen Fertilizer

The principal product of the Nitrogen Fertilizer Segment is nitrogen fertilizer. Intercompany cost of product sold (exclusive of depreciation and amortization) for the coke transfer described above was \$2,545,000 and \$850,000 for the three months ended March 31, 2008 and 2007, respectively.

Beginning in 2008, the Nitrogen Fertilizer Segment made a change as to the classification of intercompany hydrogen sales to the Petroleum Segment. In 2008, these amounts are reflected as Net Sales for the fertilizer plant. Prior to 2008, the Nitrogen Fertilizer Segment reflected these transactions as a reduction of cost of product sold (exclusive of depreciation and amortization). For the quarters ended March 31, 2008 and 2007, the net sales generated from intercompany hydrogen sales were \$5,291,000 and \$2,829,000, respectively. As noted above, the net sales of \$2,829,000 were included as a reduction to the cost of product sold (exclusive of depreciation and amortization) for 2007. As these intercompany sales are eliminated, there is no financial statement impact on the consolidated financial

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Other Segment

The Other Segment reflects intercompany eliminations, cash and cash equivalents, all debt related activities, income tax activities and other corporate activities that are not allocated to the operating segments.

	Three Months Ended March 31, (in thousands)	
	2008	2007
Net sales		
Petroleum	\$ 1,168,500	\$ 352,488
Nitrogen Fertilizer	62,600	38,575
Intersegment eliminations	(8,097)	(580)
Total	\$ 1,223,003	\$ 390,483
Cost of product sold (exclusive of depreciation and amortization)		
Petroleum	\$ 1,035,085	\$ 298,460
Nitrogen Fertilizer	8,945	6,060
Intersegment eliminations	(7,836)	(850)
Total	\$ 1,036,194	\$ 303,670
Direct operating expenses (exclusive of depreciation and amortization)		
Petroleum	\$ 40,290	\$ 96,674
Nitrogen Fertilizer	20,266	16,738
Other		
Total	\$ 60,556	\$ 113,412
Net costs associated with flood		
Petroleum	\$ 5,533	\$
Nitrogen Fertilizer	(17)	
Other	247	
Total	\$ 5,763	\$
Depreciation and amortization		
Petroleum	\$ 14,877	\$ 9,794