CVR ENERGY INC
Form 10-Q
November 13, 2008

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-33492

CVR ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**61-1512186**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2277 Plaza Drive, Suite 500 **Sugar Land, Texas**	**77479**
(Address of principal executive offices)	*(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 þ No o .

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

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

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

There were 86,147,125 shares of the registrant s common stock outstanding at November 11, 2008.

CVR ENERGY, INC. AND SUBSIDIARIES

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For The Quarter Ended September 30, 2008

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Ex-10.1: Amendment to Amended and Restated Crude Oil Supply Agreement dated as of September 26, 2008, between Coffeyville Resources Refining & Marketing, LLC and J. Aron & Company.
Ex-10.2: Amended and Restated Settlement Deferral Letter, dated as of October 11, 2008, between Coffeyville Resources, LLC and J. Aron & Company.
Ex-10.3: First Amendment to Amended and Restated On-Site Product Supply Agreement, dated October 31, 2008 between Coffeyville Resources Nitrogen Fertilizers, LLC and Linde, Inc.
Ex-10.4: Second Amendment to Amended and Restated Crude Oil Supply Agreement dated as of October 31, 2008, between Coffeyville Resources Refining & Marketing, LLC and J. Aron & Company.
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PART I. FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
	(In thousands of dollars)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,862	$ 30,509
Accounts receivable, net of allowance for doubtful accounts of $4,332 and $391, respectively	130,086	86,546
Inventories	258,911	254,655
Prepaid expenses and other current assets	53,540	14,186
Insurance receivable	19,278	73,860
Income tax receivable	21,939	31,367
Deferred income taxes	64,295	79,047
Total current assets	607,911	570,170
Property, plant, and equipment, net of accumulated depreciation	1,185,801	1,192,174
Intangible assets, net	418	473
Goodwill	83,775	83,775
Deferred financing costs, net	6,041	7,515
Insurance receivable	35,422	11,400
Other long-term assets	6,113	2,849
Total assets	$ 1,925,481	$ 1,868,356
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 4,837	$ 4,874
Note payable and capital lease obligations	15,100	11,640
Payable to swap counterparty	236,633	262,415
Accounts payable	192,282	182,225
Personnel accruals	19,704	36,659
Accrued taxes other than income taxes	21,666	14,732
Deferred revenue	15,359	13,161
Other current liabilities	28,731	33,820

Total current liabilities	534,312	559,526
Long-term liabilities:		
Long-term debt, less current portion	480,705	484,328
Accrued environmental liabilities	4,565	4,844
Deferred income taxes	296,262	286,986
Other long-term liabilities	1,209	1,122
Payable to swap counterparty	27,903	88,230
Total long-term liabilities	810,644	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	442,700	458,359
Retained earnings (deficit)	126,364	(26,500)
Total stockholders equity	569,925	432,720
Total liabilities and stockholders equity	$ 1,925,481	$ 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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007 As Restated( )	2008	2007 As Restated( )
	(Unaudited) (In thousands except share amounts)			
Net sales	$ 1,580,911	$ 585,978	$ 4,316,417	$ 1,819,874
Operating costs and expenses:				
Cost of product sold (exclusive of depreciation and amortization)	1,440,355	453,242	3,764,026	1,326,535
Direct operating expenses (exclusive of depreciation and amortization)	56,575	44,440	179,467	218,807
Selling, general and administrative expenses (exclusive of depreciation and amortization)	(7,820)	14,035	20,439	42,122
Net costs associated with flood	(817)	32,192	8,842	34,331
Depreciation and amortization	20,609	10,481	61,324	42,673
Total operating costs and expenses	1,508,902	554,390	4,034,098	1,664,468
Operating income	72,009	31,588	282,319	155,406
Other income (expense):				
Interest expense and other financing costs	(9,334)	(18,340)	(30,092)	(45,960)
Interest income	257	151	1,560	764
Gain (loss) on derivatives, net	76,706	40,532	(50,470)	(251,912)
Other income, net	428	53	858	155
Total other income (expense)	68,057	22,396	(78,144)	(296,953)
Income (loss) before income taxes and minority interest in subsidiaries	140,066	53,984	204,175	(141,547)
Income tax expense (benefit)	40,411	42,731	51,311	(98,236)
Minority interest in loss of subsidiaries		(47)		210
Net income (loss)	$ 99,655	$ 11,206	$ 152,864	$ (43,101)
Net income per share				
Basic	$ 1.16		$ 1.77	
Diluted	$ 1.16		$ 1.77	
Weighted average common shares outstanding				
Basic	86,141,291		86,141,291	
Diluted	86,158,791		86,158,791	

Pro Forma Information (note 12)				
Net income (loss) per share				
Basic	$	0.13	$	(0.50)
Diluted	$	0.13	$	(0.50)
Weighted average common shares outstanding				
Basic		86,141,291		86,141,291
Diluted		86,158,791		86,141,291

See note 2 to condensed consolidated financial statements.

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2008	2007 As Restated( )
	(Unaudited) (In thousands of dollars)	
Cash flows from operating activities:		
Net income (loss)	$ 152,864	$ (43,101)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	61,324	50,301
Provision for doubtful accounts	3,941	12
Amortization of deferred financing costs	1,487	1,947
Loss on disposition of fixed assets	1,550	1,246
Share-based compensation	(36,892)	11,285
Minority interest in loss of subsidiaries		(210)
Write-off of CVR Partners, LP initial public offering costs	2,539	
Changes in assets and liabilities:		
Accounts receivable	(47,481)	4,160
Inventories	(11,373)	(48,420)
Prepaid expenses and other current assets	(31,799)	4,186
Insurance receivable	1,060	(96,382)
Insurance proceeds from flood	29,500	
Other long-term assets	(3,553)	1,589
Accounts payable	26,200	87,402
Accrued income taxes	9,428	(31,841)
Deferred revenue	2,198	(2,064)
Other current liabilities	6,123	32,309
Payable to swap counterparty	(86,109)	230,928
Accrued environmental liabilities	(279)	209
Other long-term liabilities	87	
Deferred income taxes	24,028	(37,885)
Net cash provided by operating activities	104,843	165,671
Cash flows from investing activities:		
Capital expenditures	(67,473)	(239,695)
Net cash used in investing activities	(67,473)	(239,695)
Cash flows from financing activities:		
Revolving debt payments	(453,200)	(241,800)
Revolving debt borrowings	453,200	261,800

Proceeds from issuance of term debt		50,000
Principal payments on long-term debt	(3,660)	(3,871)
Payment of capital lease obligation	(940)	
Payment of financing costs		(2,526)
Deferred costs of CVR Partners, LP initial public offering	(2,429)	
Deferred costs of CVR Energy, Inc convertible debt offering	(988)	
Deferred costs of CVR Energy, Inc. initial public offering		(4,180)
Net cash provided by (used in) financing activities	(8,017)	59,423
Net increase (decrease) in cash and cash equivalents	29,353	(14,601)
Cash and cash equivalents, beginning of period	30,509	41,919
Cash and cash equivalents, end of period	$ 59,862	$ 27,318
Supplemental disclosures:		
Cash paid for income taxes, net of refunds (received)	$ 17,854	$ (28,510)
Cash paid for interest	36,718	37,363
Non-cash investing and financing activities:		
Accrual of construction in progress additions	(16,143)	(31,556)
Assets acquired through capital lease	4,827	

See note 2 to condensed consolidated financial statements.

See accompanying notes to the condensed consolidated financial statements.

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 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 of high value transportation fuels in the mid-continental United States and, through a limited partnership, 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 other 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. The balance of the net proceeds received were used for general corporate purposes.

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.

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 common 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

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

award vested 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 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 CVR Partners, LP (the Partnership), a newly created limited 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 III LLC (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 by the Partnership if it elects to pursue an initial public offering. In addition, the Partnership and its subsidiaries are currently guarantors under the credit facility of Coffeyville Resources, LLC (CRLLC), a wholly-owned subsidiary of CVR. There will be no distributions paid with respect to the IDRs for so long as the Partnership or its subsidiaries are guarantors under the credit facility.

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 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 September 30, 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 assets into the Partnership in exchange for its managing general partner interest and the IDRs.

In accordance with the Contribution, Conveyance, and Assumption Agreement, by and between the Partnership and the partners, dated as of October 24, 2007, if an initial private or public offering of the Partnership is not consummated by October 24, 2009, the managing general partner of the Partnership can require the Company to purchase the managing GP interest. This put right expires on the earlier of (1) October 24, 2012 or (2) the closing of

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Partnership s initial private or public offering. If the Partnership s initial private or public offering is not consummated by October 24, 2012, the Company has the right to require the managing general partner to sell the managing GP interest to the Company. This call right expires on the closing of the Partnership s initial private or public offering. In the event of an exercise of a put right or a call right, the purchase price will be the fair market value of the managing GP interest at the time of the purchase determined by an independent investment banking firm selected by the Company and the managing general partner.

On February 28, 2008, the Partnership filed a registration statement with the Securities and Exchange Commission (SEC) to effect an initial public offering of its common units representing limited partner interests. On June 13, 2008, the Company announced that the managing general partner of the Partnership had decided to postpone, indefinitely, the Partnership s initial public offering due to then-existing market conditions for master limited partnerships. The Partnership, subsequently, withdrew the registration statement.

As of September 30, 2008, the Partnership had distributed $50.0 million to CVR.

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 September 30, 2008 and December 31, 2007, the results of operations for the three and nine months ended September 30, 2008 and 2007, and the cash flows for the nine months ended September 30, 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. GAAP 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, $4.2 million of deferred offering costs for the nine months ended September 30, 2007 were previously presented in operating activities in the interim financial statements. Such amounts have now been reflected as financing activities for the nine months ended September 30, 2007 in the accompanying Consolidated Statements of Cash Flows. The impact on the prior financial statements of this revision is not considered material.

(2) Restatement of Financial Statements

On April 23, 2008, the Audit Committee of the Board of Directors and management of the Company concluded that the Company s previously issued consolidated financial statements for the year ended December 31, 2007 and the related quarter ended September 30, 2007 contained errors. The Company arrived at this conclusion during the course of its closing process and review for the quarter ended March 31, 2008.

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CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The restatement principally related to errors in the calculation of the cost of crude oil purchased by the Company and associated financial transactions. Accordingly, the Company restated the previously issued financial statements for these periods. Restated financial information, as well as a discussion of the errors and the adjustments made as a result of the restatement, are contained in the Company s amended Annual Report on Form 10K/A for the year ended December 31, 2007. The Company did not amend the Company s previously filed Quarterly Report on Form 10-Q for the period ended September 30, 2007.

As a result of the restatement, for the three months ended September 30, 2007, net income decreased by $2.2 million, from $13.4 million to $11.2 million. In addition, for the nine months ended September 30, 2007, net loss increased by $2.2 million from $40.9 million to $43.1 million. These changes resulted from an increase in cost of product sold (exclusive of depreciation and amortization) of $7.1 million for both periods, with an associated increase in income tax benefit of $4.9 million for both periods.

Due to the restatement, accounts payable for the quarter ended September 30, 2007 increased by $7.1 million. Income tax receivable increased by $3.0 million, current deferred income tax asset increased by $4.2 million, and long term deferred income tax liability increased by $2.3 million.

The effect of the above adjustments on the condensed consolidated financial statements is set forth in the tables below. The restatement had no effect on net cash flow from operating, investing, or financing activities as shown in the Consolidated Statements of Cash Flows. The restatement did not have any impact on the Company s covenant compliance under its debt facilities or its cash position as of September 30, 2007.

Notes 11, 12, 16, and 17 have been restated to reflect the adjustments described above.

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CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidated Balance Sheet Data
(in thousands)

	September 30, 2007		
	Previously Reported	Restatement Adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	$ 27,318	$	$ 27,318
Accounts receivable, net of allowance for doubtful accounts of $387	65,417		65,417
Inventories	209,853		209,853
Prepaid expenses and other current assets	28,190		28,190
Insurance receivable	84,982		84,982
Income tax receivable	60,937	3,003	63,940
Deferred income taxes	99,560	4,225	103,785
Total current assets	576,257	7,228	583,485
Property, plant, and equipment, net of accumulated depreciation	1,164,047		1,164,047
Intangible assets, net	497		497
Goodwill	83,775		83,775
Deferred financing costs, net	8,012		8,012
Insurance receivable	11,400		11,400
Other long-term assets	4,580		4,580
Total assets	$ 1,848,568	7,228	1,855,796
Liabilities and Equity			
Current liabilities:			
Current portion of long-term debt	$ 57,682	$	$ 57,682
Revolving debt	20,000		20,000
Note payable and capital lease obligations	5,947		5,947
Payable to swap counterparty	241,427		241,427
Accounts payable	189,714	7,072	196,786
Personnel accruals	31,535		31,535
Accrued taxes other than income taxes	9,648		9,648
Deferred revenue	6,748		6,748
Other current liabilities	40,551		40,551
Total current liabilities	603,252	7,072	610,324
Long-term liabilities:			

Long-term debt, less current portion	763,447		763,447
Accrued environmental liabilities	5,604		5,604
Deferred income taxes	328,785	2,349	331,134
Payable to swap counterparty	99,202		99,202
Total long-term liabilities	1,197,038	2,349	1,199,387
Commitments and contingencies			
Minority interest in subsidiaries	5,169		5,169
Management voting common units subject to redemption, 201,063 units issued and outstanding in 2007	8,656		8,656
Stockholders equity			
Voting common units, 22,614,937 units issued and outstanding in 2007	29,958	(2,193)	27,765
Management nonvoting override units, 2,976,353 units issued and outstanding in 2007	4,495		4,495
Total stockholders equity	34,453	(2,193)	32,260
Total liabilities and stockholders equity	$ 1,848,568	$ 7,228	$ 1,855,796

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CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidated Statement of Operations Data
(in thousands)

	Three Months Ended September 30, 2007			Nine Months Ended September 30, 2007		
	Previously Reported	Restatement Adjustments	As Restated	Previously Reported	Restatement Adjustments	As Restated
Net Sales	$ 585,978	$	$ 585,978	$ 1,819,874	$	$ 1,819,874
Operating costs and expenses						
Cost of products sold (exclusive of depreciation and amortization)	446,170	7,072	453,242	1,319,463	7,072	1,326,535
Direct operating expenses (exclusive of depreciation and amortization)	44,440		44,440	218,807		218,807
Selling, general and administrative expenses (exclusive of depreciation and amortization)	14,035		14,035	42,122		42,122
Net costs associated with flood	32,192		32,192	34,331		34,331
Depreciation and amortization	10,481		10,481	42,673		42,673
Total operating costs and expenses	547,318	7,072	554,390	1,657,396	7,072	1,664,468
Operating income	38,660	(7,072)	31,588	162,478	(7,072)	155,406
Other income (expense):						
Interest expense and other financing costs	(18,340)		(18,340)	(45,960)		(45,960)
Interest income	151		151	764		764
Gain (loss) on derivatives, net	40,532		40,532	(251,912)		(251,912)
Other income, net	53		53	155		155
	22,396		22,396	(296,953)		(296,953)

Total other income (expense)						
Income (loss) before income taxes and minority interest in subsidiaries	61,056	(7,072)	53,984	(134,475)	(7,072)	(141,547)
Income tax expense (benefit)	47,610	(4,879)	42,731	(93,357)	(4,879)	(98,236)
Minority interest in loss of subsidiaries	(47)		(47)	210		210
Net income (loss)	$ 13,399	$ (2,193)	$ 11,206	$ (40,908)	$ (2,193)	$ (43,101)
Unaudited Pro Form Information (Note 12)						
Net income (loss) per share						
Basic	$ 0.16	$ (0.03)	$ 0.13	$ (0.47)	$ (0.03)	$ (0.50)
Diluted	$ 0.16	$ (0.03)	$ 0.13	$ (0.47)	$ (0.03)	$ (0.50)
Weighted average common shares outstanding						
Basic	86,141,291		86,141,291	86,141,291		86,141,291
Diluted	86,158,791		86,158,791	86,141,291		86,141,291

(3) 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

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 September 30, 2008, the only financial assets and financial liabilities that are within the scope of SFAS 157 and measured at fair value on a recurring basis are the Company s derivative instruments. See Note 15, 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 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.

(4) 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 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 addition, in connection with the transfer of the managing general partner of the Partnership to CALLC III in October 2007, 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 Selling Goods or Services*, which requires remeasurement at each reporting period through the performance commitment period, or in CVR s case, through the vesting period. At September 30, 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 in correlation with the percentage for

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

which the override units can share in conjunction with the benchmark value. The estimated fair value of the override units of CALLC III has been determined using a 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 table provides key information for the share-based compensation plans related to the override units of CALLC, CALLC II, and CALLC III. Compensation expense amounts are disclosed in thousands.

Award Type	Benchmark Value (per Unit)	Awards Issued	Grant Date	*Compensation Expense Increase (Decrease) for the Three Months Ended September 30, 2008	2007	*Compensation Expense Increase (Decrease) for the Nine Months Ended September 30, 2008	2007
Override Operating Units(a)	$ 11.31	919,630	June 2005	$ (748)	$ 178	$ (5,272)	743
Override Operating Units(b)	$ 34.72	72,492	December 2006	(199)	41	(454)	236
Override Value Units(c)	$ 11.31	1,839,265	June 2005	(6,978)	169	(10,176)	508
Override Value Units(d)	$ 34.72	144,966	December 2006	(481)	52	(555)	155
Override Units(e)	$ 10.00	138,281	October 2007			(1)	
Override Units(f)	$ 10.00	642,219	February 2008	510		511	
			Total	$ (7,896)	$ 440	$ (15,947)	$ 1,642

* As CVR s common stock price increases or decreases compensation expense increases or is reversed in correlation to such increases or decreases in the stock price subject to certain limitations.

Valuation Assumptions

(a) In accordance with SFAS 123(R), using the Monte Carlo method of valuation, the estimated fair value of the override operating units on June 24, 2005 was $3,605,000. Significant assumptions used in the valuation were as follows:

	Grant	Remeasurement

	Date	Date
Estimated forfeiture rate	None	None
Explicit service period	Based on forfeiture schedule in (b) below	Based on forfeiture schedule in (b) below
Grant date fair value	$5.16 per share	N/A
September 30, 2008 CVR closing stock price	N/A	$8.52
September 30, 2008 estimated fair value	N/A	$17.54 per share
Marketability and minority interest discounts	24% discount	15% discount
Volatility	37%	N/A

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(b) In accordance with SFAS 123(R), using a combination of a binomial model and a probability-weighted expected return method which utilized CVR s cash flow projections, the estimated fair value of the override operating units on December 28, 2006 was $473,000. 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
September 30, 2008 CVR closing stock price	N/A	$8.52
September 30, 2008 estimated fair value	N/A	$0 per share
Marketability and minority interest discounts	20% discount	15% discount
Volatility	41%	N/A

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

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

(c) 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. 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
September 30, 2008 CVR closing stock price	N/A	$8.52
September 30, 2008 estimated fair value	N/A	$7.06 per share
Marketability and minority interest discounts	24% discount	15% discount

Volatility	37%	N/A

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(d) In accordance with SFAS 123(R), using a combination of a binomial model and a probability-weighted expected return method which utilized CVR s cash flow projections, the estimated fair value of the override value units on December 28, 2006 was $945,000. 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
September 30, 2008 CVR closing stock price	N/A	$8.52
September 30, 2008 estimated fair value	N/A	$0 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 as follows:

Minimum Period Held	Subject to Forfeiture Percentage
2 years	75%
3 years	50%
4 years	25%
5 years	0%

(e) 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 which includes expected future earnings and the anticipated timing of IDRs, the estimated grant date fair value of the override units was approximately $3,000. As of September 30, 2008 these units were fully vested. Significant assumptions used in the valuation were as follows:

Estimated forfeiture rate	None
September 30, 2008 estimated fair value	$0.007 per share
Marketability and minority interest discount	15% discount
Volatility	36.2%

(f) In accordance with SFAS 123(R), *Share-Based Compensation,* using a probability-weighted expected return method which utilized CALLC III s cash flows projections which includes expected future earnings and the

anticipated timing of IDRs, the estimated grant date fair value of the override units was approximately $3,000. Of the 642,219 units issued, 109,720 were immediately vested upon issuance and the remaining units are subject to a forfeiture schedule. Significant assumptions used in the valuation were as follows:

Estimated forfeiture rate	None
Derived Service Period	Based on forfeiture schedule
September 30, 2008 estimated fair value	$3.77 per share
Marketability and minority interest discount	20% discount
Volatility	45.0%

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At September 30, 2008, assuming no change in the estimated fair value at September 30, 2008, there was approximately $8.0 million of unrecognized compensation expense related to non-voting override units. This is expected to be recognized over a remaining period of approximately three years as follows (in thousands):

	Override Operating Units	Override Value Units
Three months ending December 31, 2008	$ 457	$ 545
Year ending December 31, 2009	1,287	2,164
Year ending December 31, 2010	387	2,164
Year ending December 31, 2011		1,032
	$ 2,131	$ 5,905

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 September 30, 2008, the issued Profits Interest (combined phantom points 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 September 30, 2008 CVR closing common stock price to determine the Company s equity value, the service phantom interest and performance phantom interest were valued at $17.54 and $7.06 per point, respectively. CVR has recorded approximately $7,984,000 and $29,217,000 in personnel accruals as of September 30, 2008 and December 31, 2007, respectively. Compensation expense for the three and nine month periods ending September 30, 2008 related to the Phantom Unit Appreciation Plan was reversed by $(17,977,000) and $(21,233,000), respectively. Compensation expense for the three and nine month periods ending September 30, 2007 was $4,062,000 and $9,641,000, respectively.

At September 30, 2008, assuming no change in the estimated fair value at September 30, 2008, there was approximately $2.9 million of unrecognized compensation expense related to the Phantom Unit Appreciation Plan. This is expected to be recognized over a remaining period of approximately three years.

Long Term Incentive Plan

CVR has a Long Term Incentive Plan which permits the grant of options, stock appreciation rights, or SARS, non-vested shares, non-vested share units, dividend equivalent rights, share awards and performance awards.

During the quarter there were no forfeitures or vesting of stock options or non-vested shares. On September 24, 2008, options to purchase 9,100 shares of common stock at an exercise price of $11.01 per share were granted to an outside director upon his election to the Company s board of directors.

As of September 30, 2008, there was approximately $0.4 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 September 30, 2008 and 2007 related to the non-vested common stock and common stock options was $102,000 and $0, respectively. Compensation expense recorded for the nine month periods ending September 30, 2008 and 2007 related to the non-vested common stock and common stock options was $288,000 and $0, respectively.

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(5) 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):

	September 30, 2008	December 31, 2007
Finished goods	$ 110,106	$ 109,394
Raw materials and catalysts	94,164	92,104
In-process inventories	27,304	29,817
Parts and supplies	27,337	23,340
	$ 258,911	$ 254,655

(6) Property, Plant, and Equipment

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

	September 30, 2008	December 31, 2007
Land and improvements	$ 17,672	$ 13,058
Buildings	21,955	17,541
Machinery and equipment	1,288,553	1,108,858
Automotive equipment	6,448	5,171
Furniture and fixtures	7,593	6,304
Leasehold improvements	1,169	929
Construction in progress	44,527	182,046
	1,387,917	1,333,907
Accumulated depreciation	202,116	141,733
	$ 1,185,801	$ 1,192,174

Capitalized interest recognized as a reduction in interest expense for the three month periods ended September 30, 2008 and September 30, 2007 totaled approximately $244,000 and $2,877,000, respectively. Capitalized interest for the nine month periods ended September 30, 2008 and September 30, 2007 totaled approximately $1,565,000 and $9,285,000, respectively. Land and buildings that are under a capital lease obligation approximate $4,827,000.

(7) 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 nitrogen fertilizer plant recently completed a major scheduled turnaround in October 2008. The refinery started a major scheduled turnaround in February 2007 with completion in April 2007. Costs of $138,000 associated with the 2008 fertilizer plant turnaround were included in direct operating expenses (exclusive of depreciation and amortization) for the three and

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nine months ended September 30, 2008. Costs of $0 and $76,754,000 associated with the 2007 refinery turnaround were included in direct operating expenses (exclusive of depreciation and amortization) for the three and nine months ending September 30, 2007, respectively.

(8) 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 $605,000 and $595,000 for the three months ended September 30, 2008 and September 30, 2007, respectively. For the nine months ended September 30, 2008 and 2007 cost of product sold excludes depreciation and amortization of $1,816,000 and $1,791,000, 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 $19,486,000 and $9,582,000 for the three months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008 and 2007, direct operating expenses excludes depreciation and amortization of $58,296,000 and $40,202,000, respectively. Direct operating expenses also exclude depreciation of $7,627,000 for both the three and nine months ended September 30, 2007 that is included in Net costs associated with the flood on the condensed consolidated statement of operations as a result of assets being idled due to the flood.

Selling, general and administrative expenses (exclusive of depreciation and amortization) consist 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 $518,000 and $304,000 for the three months ended September 30, 2008 and September 30, 2007, respectively. For the nine months ended September 30, 2008 and 2007, selling, general and administrative expenses excludes depreciation and amortization of $1,212,000 and $680,000, respectively.

(9) Note Payable and Capital Lease Obligations

The Company entered into an insurance premium finance agreement with Cananwill, Inc. in July 2008 and July 2007 to finance the purchase of its property, liability, cargo and terrorism policies. The original balances of these notes were $10.0 million and $7.6 million for 2008 and 2007, respectively. Both notes were to be repaid in equal installments with the final payment due for the 2008 note in June 2009. The balance due for the July 2007 note was paid in full in April 2008. As of September 30, 2008 and December 31, 2007 the Company owed $10.0 million and $3.4 million related to these notes.

The Company entered into two capital leases in 2007 to lease platinum required in the manufacturing of new catalyst. The recorded lease obligations fluctuate with the platinum market price. The leases 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 September 30, 2008 and December 31, 2007 the lease obligations were recorded at approximately $1.1 million and $8.2 million on the Consolidated Balance Sheets, respectively.

The Company also entered into a capital lease for real property used for corporate purposes on May 29, 2008. The lease has an initial lease term of one year with an option to renew for three additional one-year periods. The Company has the option to purchase the property during the initial lease term or during the renewal periods if the lease is renewed. In connection with the capital lease the Company recorded a capital asset and capital lease obligation of $4.8 million. The capital lease obligation was $4.0 million as of September 30, 2008.

(10) Flood, Crude Oil Discharge 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

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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, up to $300 million per occurrence, subject to deductibles and other limitations. The deductible associated with the property damage was $2.5 million.

Additionally, crude oil was discharged from the Company s refinery on July 1, 2007 due to the short amount of time to shut down and save the refinery in preparation of the flood that occurred on June 30, 2007. The Company maintained insurance policies related to environmental cleanup costs and potential liability to third parties for bodily injury or property damage. The policies were subject to a $1.0 million self-insured retention.

The Company has submitted voluminous claims information to, and continues to respond to information requests from, the insurers with respect to costs and damages related to the 2007 flood and crude oil discharge. See Note 13, Commitments and Contingent Liabilities for additional information regarding environmental and other contingencies relating to the crude oil discharge that occurred on July 1, 2007.

As of September 30, 2008, the Company has recorded total gross costs associated with the repair of and other matters relating to the damage to the Company s facilities and with third party and property damage claims incurred due to the crude oil discharge of approximately $154.6 million. Total anticipated insurance recoveries of approximately $104.2 million have been recorded as of September 30, 2008 (of which $49.5 million had already been received as of September 30, 2008 by the Company from insurance carriers). At September 30, 2008, total accounts receivable from insurance were $54.7 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. As of September 30, 2008, $35.4 million of the amounts receivable from insurers were not anticipated to be collected in the next twelve months, and therefore has been classified as a non-current asset.

Management believes the recovery of the receivable from the insurance carriers is probable. While management believes that the Company s property insurance should cover substantially all of the estimated total costs associated with the physical damage to the property, the Company s insurance carriers have cited potential coverage limitations and defenses, which while unlikely to preclude recovery, could do so and are anticipated to delay collection for more than twelve months.

The Company s property insurers have raised a question as to whether the Company s facilities are principally located in Zone A, which was, at the time of the flood, subject to a $10 million insurance limit for flood, or Zone B, which was, at the time of the flood, subject to a $300 million insurance limit for flood. The Company has reached an agreement with certain of its property insurers representing approximately 32.5% of its total property coverage for the flood that the facilities are principally located in Zone B and therefore subject to the $300 million limit for the flood. The remaining property insurers have not, at this time, agreed to this position. In addition, the Company s excess environmental liability insurance carrier has asserted that the pollution liability claims are for cleanup, which is not covered under its policy, rather than for property damage, which is covered to the limits of the policy. While the Company will vigorously contest the excess carrier s position, the Company contends that if that position were upheld, the Company s umbrella Comprehensive General Liability policies would continue to provide coverage for these claims. Each insurer, however, has reserved its rights under various policy exclusions and limitations and has cited potential coverage defenses. On July 10, 2008, the Company filed two lawsuits against certain of its insurance carriers. One lawsuit was filed against the nonsettling property damage insurance carriers, and the second lawsuit was

filed against carriers under the environmental insurance policies. The property insurance lawsuit involved the Zone A/Zone B issue, and the pollution insurance lawsuit involved the cleanup/property damage issue described above. The Company intends to pursue the litigation vigorously. The Company s primary pollution liability carrier has settled with the Company by paying the full $25.0 million policy limit and has been dismissed from the pollution insurance lawsuit. The $25.0 million payment from the Company s environmental insurer is included within the $49.5 million of insurance proceeds at September 30, 2008. Considering the effect of the lawsuits, the Company continues to believe its remaining receivable as of September 30, 2008 of $54.7 million is probable of recovery.

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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 net pretax costs in total since the occurrence of the flood of approximately $50.4 million associated with both the flood and related crude oil discharge as discussed in Note 13, Commitments and Contingent Liabilities. This amount is net of anticipated insurance recoveries of $104.2 million.

Below is a summary of the gross cost associated with the flood and crude oil discharge and reconciliation of the insurance receivable (in millions):

	Total	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Total gross costs incurred	$ 154.6	$ 1.0	$ 128.6	$ 7.8	$ 130.7
Total insurance receivable	(104.2)	(1.8)	(96.4)	1.1	(96.4)
Net costs associated with the flood	$ 50.4	$ (0.8)	$ 32.2	$ 8.9	$ 34.3

	Receivable Reconciliation
Total insurance receivable	$ 104.2
Less insurance proceeds received through September 30, 2008	(49.5)
Insurance receivable	$ 54.7

Although the Company believes that it will recover 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 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. In the third quarter of 2008, the Company received $13.0 million under its property insurance policy and $15.0 million was received from one environmental insurance carrier in settlement of their expected total obligation. In October 2008, the Company through certain wholly-owned subsidiaries submitted an advance payment proof of loss to certain of its insurers for unallocated property damage. The Company expects to receive an advance payment related thereto in the amount of approximately $10.1 million. As of November 6, 2008, the Company has received $9.8 million of the $10.1 million total increasing the total insurance recoveries received from $49.5 million at September 30, 2008 to $59.3 million as of November 6, 2008. The Company continues to reserve all rights under all relevant policies. See Note 13, Commitments and Contingent Liabilities for additional information regarding environmental and other contingencies relating to the crude oil discharge that occurred on July 1, 2007.

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(11) 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 September 30, 2008.

As of September 30, 2008, the Company did not have an accrual for any amounts for interest or penalties related to uncertain tax positions. The Company s accounting policy with respect to interest and penalties related to tax uncertainties is to classify these amounts as income taxes.

CVR and its subsidiaries file U.S. federal and various state income and franchise tax returns. The Company s U.S. federal income tax return for its 2005 tax year is currently under examination. An examination of the Company s 2004 through 2007 Texas franchise recently commenced. The Company has not been subject to any other U.S. federal or state income or franchise tax examinations by taxing authorities with respect to other income and franchise tax returns. The Company s U.S. federal and state tax years subject to examination as of October 31, 2008 are 2005 to 2007.

The Company s effective tax rate for the nine months ended September 30, 2008 and 2007 was 25.1% and 69.3%, respectively, as compared to the Company s combined federal and state expected statutory tax rate of 39.9%. The effective tax rate is lower than the expected statutory tax rate for the nine months ended September 30, 2008 due primarily 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). The annualized effective tax rate in 2008 is lower than 2007 due to the correlation between the amount of credits projected to be generated in each year in relative comparison with the projected pre-tax loss level in 2007 and pre-tax income level in 2008.

(12) 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 the Company and Basis of Presentation .

2008 Earnings Per Share

Earnings per share for the three and nine months ended September 30, 2008 is calculated as noted below.

Three Months Ended	Nine Months Ended

	September 30, 2008			September 30, 2008		
	Earnings	**Shares**	**Per Share**	**Earnings**	**Shares**	**Per Share**
Basic earnings per share	$ 99,655,000	86,141,291	$ 1.16	$ 152,864,000	86,141,291	$ 1.77
Diluted earnings per share	$ 99,655,000	86,158,791	$ 1.16	$ 152,864,000	86,158,791	$ 1.77

Outstanding stock options totaling 32,350 common shares were excluded from the diluted earnings per share calculation for the three and nine months ended September 30, 2008 as they were antidilutive.

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2007 Earnings (Loss) Per Share

The computation of basic and diluted loss per share for the three and nine months ended September 30, 2007 is calculated on a pro forma basis assuming the capital structure in place after the completion of the initial public offering was in place for the entire period.

Pro forma earnings (loss) per share for the three and nine months ended September 30, 2007 is calculated as noted below. For the nine months ended September 30, 2007, 17,500 non-vested shares of common stock 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:

	For the Three Months Ended September 30, 2007 As Restated( ) (Unaudited)	For the Nine Months Ended September 30, 2007 As Restated( ) (Unaudited)
Net income (loss)	$ 11,206,000	$ (43,101,000)
Pro forma weighted average shares outstanding:		
Original CVR shares of common stock	100	100
Effect of 628,667.20 to 1 stock split	62,866,620	62,866,620
Issuance of shares of common stock to management in exchange for subsidiary shares	247,471	247,471
Issuance of shares of common stock to employees	27,100	27,100
Issuance of shares of common stock in the initial public offering	23,000,000	23,000,000
Basic weighted average shares outstanding	86,141,291	86,141,291
Dilutive securities issuance of non-vested shares of common stock to board of directors	17,500	
Diluted weighted average shares outstanding	86,158,791	86,141,291
Pro forma basic earnings (loss) per share	$ 0.13	$ (0.50)
Pro forma dilutive earnings (loss) per share	$ 0.13	$ (0.50)

See Note 2 to condensed consolidated financial statements.

(13) Commitments and Contingent Liabilities

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

	Operating Leases	Unconditional Purchase Obligations
Three months ending December 31, 2008	$ 943	$ 7,455
Year ending December 31, 2009	3,293	28,685
Year ending December 31, 2010	2,169	37,526
Year ending December 31, 2011	950	56,593
Year ending December 31, 2012	198	53,908
Thereafter	11	411,263
	$ 7,564	$ 595,430

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company leases various equipment, including rail cars, and real properties under long-term operating leases, expiring at various dates. In the normal course of business, the Company also has long-term commitments to purchase services such as natural gas, electricity, water and transportation services. For the three months ended September 30, 2008 and 2007, lease expense totaled $1,102,000 and $850,000, respectively. For the nine months ended September 30, 2008 and 2007, lease expense totaled $3,176,000 and $2,812,000, respectively. The lease 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 outcome and 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. In connection with that discharge, the Company received in May 2008 notices of claims from sixteen private claimants under the Oil Pollution Act in aggregate amount of approximately $4.4 million. In August 2008, those claimants filed suit against the Company in the United States District Court for the District of Kansas in Wichita. The Company believes that the resolution of these claims will not have a material adverse effect on the consolidated financial statements.

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 substantially completed remediating the damage caused by the crude oil discharge in July 2008 and expects any remaining minor remedial actions to be completed by December 31, 2008. The Company is currently preparing its final report to the EPA to satisfy the final requirement of the Consent Order.

As of September 30, 2008, the total gross costs recorded associated with remediation and third party property damage as a result of the crude oil discharge approximated $52.9 million. The Company has not estimated or accrued for any potential fines, penalties or claims that may be imposed or brought by regulatory authorities or possible additional damages arising from lawsuits related to the flood as management does not believe any such fines, penalties or lawsuits would be material nor can be estimated.

While the remediation efforts were substantially completed in July 2008, 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, resolution of class action lawsuits, and other claims brought by regulatory authorities. Our excess environmental liability insurance carrier has asserted that our pollution liability claims are for cleanup, which is not covered by such policy, rather than for property damage, which is covered to the limits of the policy. While we will vigorously contest the excess carrier s position, we contend that if that position were upheld, our umbrella Comprehensive General Liability policies would continue to provide coverage for these claims. Each insurer, however, has reserved its rights under various policy exclusions and limitations and has cited potential coverage defenses. Although the Company believes that substantial sums under the environmental and liability insurance

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

policies will be recovered, the Company can not be certain 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 primary environmental liability insurance policy in 2007 and received an additional $15.0 million in September 2008 from that carrier, which two payments together constituted full payment to the Company of the primary pollution liability policy limit.

On July 10, 2008, the Company filed two lawsuits in the United States District Court for the District of Kansas against certain of the Company s insurance carriers with regard to the Company s insurance coverage for the flood and crude oil discharge. One of the lawsuits was filed against the insurance carriers under the environmental policies.

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 Administrative Orders 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 September 30, 2008 and December 31, 2007, environmental accruals of $7,079,000 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 $2,514,000 and $2,802,000, respectively, included in other current liabilities. The Company s accruals were determined based on an estimate of payment costs through 2031, which scope of remediation was arranged with the EPA and are discounted at the appropriate risk free rates at September 30, 2008 and December 31, 2007, respectively. The accruals include estimated closure and post-closure costs of $1,524,000

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and $1,549,000 for two landfills at September 30, 2008 and December 31, 2007, respectively. The estimated future payments for these required obligations are as follows (in thousands):

	Amount
Three months ending December 31, 2008	$ 1,999
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	8,150
Less amounts representing interest at 3.51%	1,071
Accrued environmental liabilities at September 30, 2008	$ 7,079

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 intending to limit the amount of sulfur in diesel and gasoline. The EPA has granted the Company s petition for a technical hardship waiver with respect to the date for compliance in meeting the sulfur-lowering standards. CVR spent approximately $16.8 million in 2007, $79.0 million in 2006 and $27.0 million in 2005 to comply with the low-sulfur rules. CVR spent $10.1 million in the first nine months of 2008 and, based on information currently available, anticipates spending approximately $6.4 million in the last three months of 2008, $41.6 million in 2009, and $5.0 million in 2010 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 September 30, 2008 and 2007, capital expenditures were $5,481,000 and $16,195,000, respectively. For the nine month periods ended September 30, 2008 and 2007, capital expenditures were $34,842,000 and $102,775,000, respectively. These expenditures 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.

CVR ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Derivative Financial Instruments

Gain (loss) on derivatives, net consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Realized loss on swap agreements	$ (33,794)	$ (45,352)	$ (107,747)	$ (142,567)
Unrealized gain (loss) on swap agreements	98,947	90,196	69,051	(98,294)
Realized gain (loss) on other agreements	10,811	(1,247)	(10,203)	(8,834)
Unrealized gain (loss) on other agreements	1,258	726	634	(837)
Realized gain (loss) on interest rate swap agreements	(891)	965	(1,316)	3,282
Unrealized gain (loss) on interest rate swap agreements	375	(4,756)	(889)	(4,662)
Total gain (loss) on derivatives, net	$ 76,706	$ 40,532	$ (50,470)	$ (251,912)

CVR is subject to crude oil and finished goods price fluctuations caused by supply and demand conditions, weather, economic conditions, and other factors. To manage this 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 derivate contracts. CVR is also subject to interest rate fluctuations. To manage interest rate risk and to meet the requirements of the credit agreements CALLC entered into an interest rate swap, as further described below 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 change in fair value and periodic settlements of these derivative instruments are classified as loss on derivatives, net in the Consolidated Statements of Operations. For the purposes of segment reporting, realized and unrealized gains or losses related to the commodity derivative contracts are reported in the Petroleum Segment.

Cash Flow Swap

At September 30, 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 16, 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 agreement. 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. At September 30, 2008 the notional open

amounts under the swap agreements were 23,883,250 barrels of crude oil, 501,548,250 gallons of heating oil and 501,548,250 gallons of unleaded gasoline.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest Rate Swap

At September 30, 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 $250,000,000. Half of the agreements are held with a related party (as described in Note 16, Related Party Transactions), and the other half are held with a financial institution that is a lender under CRLLC s long-term debt agreement. The swap agreements carry the following terms:

Period Covered	Notional Amount	Fixed Interest Rate
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 30, 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.

(15) 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.

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 3 to the Condensed Consolidated Financial Statements. As of September 30, 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)

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, as of September 30, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash Flow Swap		$ (264,536)		$ (264,536)
Interest Rate Swap		(2,758)		(2,758)
Other Derivative Agreements		4,726		4,726

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.

(16) Related Party Transactions

Management Services Agreements

GS Capital Partners V Fund, L.P. and related entities (GS) and Kelso Investment Associates VII, L.P. and related entity (Kelso) through their majority ownership of CALLC and CALLC II 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, the Company recorded $500,000 and $1,582,000 in selling, general, and administrative expenses (exclusive of depreciation and amortization) for the three and nine months ended September 30, 2007, respectively. As these agreements were terminated on October 26, 2007 there have been no expenses recorded in 2008.

Cash Flow Swap

CALLC entered into certain crude oil, heating oil and gasoline swap agreements with a subsidiary of GS, J. Aron & Company (J. Aron). Additional swap agreements with J. Aron were entered into on June 16, 2005, with an expiration date of June 30, 2010 (as described in Note 14, Derivative Financial Instruments). These agreements were assigned to CRLLC on June 24, 2005. Gains totaling $65,153,000 and $44,844,000 were recognized related to these swap agreements for the three months ended September 30, 2008 and 2007, respectively, and are reflected in gain (loss) on derivatives, net in the Consolidated Statements of Operations. For the nine months ended September 30, 2008 and 2007 the Company recognized losses of $38,696,000 and $240,861,000, respectively, which are reflected in gain (loss) on derivatives, net in the Consolidated Statements of Operations. In addition, the Consolidated Balance Sheet at September 30, 2008 and December 31, 2007 includes liabilities of $236,633,000 and $262,415,000, respectively, included in current payable to swap counterparty, and $27,903,000 and $88,230,000, respectively, included in long-term payable to swap counterparty.

J. Aron Deferrals

As a result of the flood and the temporary cessation of business operations in 2007, the Company entered into three separate deferral agreements for amounts owed to J. Aron. The amount deferred, excluding accrued interest, totaled $123.7 million. Of the original deferred balances, $36.2 million has been repaid as of September 30, 2008. These deferred payment amounts are included in the Consolidated Balance Sheet at September 30, 2008 in current payable to swap counterparty. The deferred balance owed to the GS subsidiary, excluding accrued interest payable, totaled $87.5 million at September 30, 2008. Approximately $0.5 million of accrued interest payable related to the deferred payments is included in other current liabilities at September 30, 2008.

On July 29, 2008, CRLLC entered into a revised letter agreement with J. Aron to defer $87.5 million of the deferred payment amounts under the 2007 deferral agreements. On August 29, 2008, the Company paid

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$36.2 million of the balance to J. Aron, as well as $7.1 million in accrued interest. Subsequent to the quarter end, the Company paid an additional $15.0 million through use of proceeds received on the environmental insurance policy.

The deferral agreement was further amended on October 11, 2008 and the outstanding balance of $72.5 million on that date was further deferred to July 31, 2009. Additional proceeds of $9.8 million received under the property insurance policy subsequent to October 11, 2008, were used to pay down the principle balance on the deferral amount to $62.7 million as of November 6, 2008. Under the most recent deferral, the unpaid deferred amounts and all accrued and unpaid interest are due and payable in full on July 31, 2009. However, all accrued interest through December 15, 2008 must be paid on that day. Interest will accrue on the amounts deferred at the rate of (i) LIBOR plus 2.75% until December 15, 2008 and (ii) LIBOR plus 5.00%-7.50% (depending on J. Aron s cost of capital) from December 15, 2008 through the date of payment. CRLLC must make prepayments of $5.0 million for the quarters ending March 31, 2009 and June 30, 2009 to reduce the deferred amounts. To the extent that CRLLC or any of its subsidiaries receives net insurance proceeds related to the July 2007 flood that are not required to be used to prepay CRLLC s credit agreement or be invested pursuant to the terms of CRLLC s credit agreement, all net insurance proceeds will be used to prepay the deferred amounts. GS and Kelso each agreed to guarantee one half of the deferral amount of $72.5 million.

Interest Rate Swap

On June 30, 2005, CALLC entered into three interest-rate swap agreements with J. Aron (as described in Note 14, Derivative Financial Instruments). Losses totaling $256,000 and $1,894,000 were recognized related to these swap agreements for the three months ended September 30, 2008 and 2007, respectively, and are reflected in gain (loss) on derivatives, net in the Consolidated Statements of Operations. For the nine months ended September 30, 2008 and 2007, the Company recognized losses totaling $1,107,000 and $683,000, respectively related to these swap agreements which are reflected in gain (loss) on derivatives, net, in the Consolidated Statements of Operations. In addition, the Consolidated Balance Sheet at September 30, 2008 and December 31, 2007 includes $786,000 and $371,000, respectively, in other current liabilities and $590,000 and $557,000, respectively, in other long-term liabilities related to the same agreements.

Crude Oil Supply Agreement

Coffeyville Resources Refining & Marketing, LLC (CRRM), a subsidiary of the Company, is a counterparty to a crude oil supply agreement with J. Aron. Under the agreement, the parties agreed to negotiate the cost of each barrel of crude oil to be purchased from a third party, and CRRM agreed to pay J. Aron 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 Company recorded $26,407,000 and $360,000 on the Consolidated Balance Sheets at September 30, 2008 and December 31, 2007, respectively, in prepaid expenses and other current assets for the prepayment of crude oil. In addition, $41,111,000 and $43,773,000 were recorded in inventory and $24,315,000 and $42,666,000 were recorded in accounts payable at September 30, 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 periods ended September 30, 2008 and 2007 totaled $966,006,000 and $251,958,000, respectively. For the nine months ended September 30, 2008 and 2007, the Company recognized expenses of $2,640,135,000 and $772,872,000, respectively, associated with this agreement included in cost of product sold (exclusive of depreciation

and amortization).

Cash and Cash Equivalents

The Company opened a highly liquid money market account with average maturities of less than 90 days within the Goldman Sachs fund family in September 2008. As of September 30, 2008, the balance in the account was approximately $51.0 million.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) 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 price 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 $3,353,000 and $680,000 for the three months ended September 30, 2008 and 2007, respectively. Intercompany sales included in petroleum net sales were $8,959,000 and $2,560,000 for the nine months ended September 30, 2008 and 2007, respectively.

Intercompany cost of product sold (exclusive of depreciation and amortization) for the hydrogen sales described below under Nitrogen Fertilizer was $40,000 and $2,593,000 for the three months ended September 30, 2008 and 2007, respectively. The intercompany cost of product sold (exclusive of depreciation and amortization) for the hydrogen sales described below under Nitrogen Fertilizer was $7,932,000 and $10,611,000 for the nine months ended September 30, 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 $3,364,000 and $631,000 for the three months ended September 30, 2008 and 2007, respectively. Intercompany cost of product sold (exclusive of depreciation and amortization) for the coke transfer described above was $8,235,000 and $2,597,000 for the nine months ended September 30, 2008 and 2007, respectively.

Beginning in 2008, the Nitrogen Fertilizer Segment changed the method of classification of intercompany hydrogen sales to the Petroleum Segment. In 2008, these amounts have been 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 deprecation and amortization). For the quarters ended September 30, 2008 and 2007, the net sales generated from intercompany hydrogen sales were $40,000 and $2,593,000, respectively. For the nine months ended September 30, 2008 and 2007, hydrogen sales were $7,932,000 and $10,611,000, respectively. As noted above, the net sales of $2,593,000 and $10,611,000 were included as a reduction to the cost of product sold (exclusive of depreciation and amortization) for the three and nine months ended September 30, 2007. As these intercompany sales are eliminated, there is no financial statement impact on the consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Segment

The Other Segment reflects all intercompany eliminations, including significant intercompany eliminations of receivables and payables between the segments, 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 September 30,		Nine Months Ended September 30,	
	2008	2007 As Restated( )	2008	2007 As Restated( )
	(In thousands)		(In thousands)	
Net sales				
Petroleum	$ 1,510,287	$ 545,902	$ 4,137,888	$ 1,707,344
Nitrogen Fertilizer	74,155	40,756	195,557	115,091
Intersegment eliminations	(3,531)	(680)	(17,028)	(2,561)
Total	$ 1,580,911	$ 585,978	$ 4,316,417	$ 1,819,874
Cost of product sold (exclusive of depreciation and amortization)				
Petroleum	$ 1,437,742	$ 450,153	$ 3,758,383	$ 1,319,223
Nitrogen Fertilizer	6,156	3,719	21,947	9,908
Intersegment eliminations	(3,543)	(630)	(16,304)	(2,596)
Total	$ 1,440,355	$ 453,242	$ 3,764,026	$ 1,326,535
Direct operating expenses (exclusive of depreciation and amortization)				
Petroleum	$ 37,132	$ 29,544	$ 120,106	$ 170,685
Nitrogen Fertilizer	19,443	14,896	59,361	48,122
Other				
Total	$ 56,575	$ 44,440	$ 179,467	$ 218,807
Net costs associated with flood				
Petroleum	$ (1,014)	$ 28,595	$ 7,888	$ 30,630
Nitrogen Fertilizer	10	1,892	27	1,996
Other	187	1,705	927	1,705
Total	$ (817)	$ 32,192	$ 8,842	$ 34,331