

CVR ENERGY INC  
Form 10-Q  
November 06, 2012

Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2012**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 001-33492**

**CVR ENERGY, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**61-1512186**  
(I.R.S. Employer  
Identification No.)

**2277 Plaza Drive, Suite 500**  
**Sugar Land, Texas**  
(Address of principal executive offices)

**77479**  
(Zip Code)

**(281) 207-3200**

(Registrant's telephone number, including area code)

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

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

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

Edgar Filing: CVR ENERGY INC - Form 10-Q

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

(Do not check if smaller reporting company.)

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

There were 86,831,050 shares of the registrant's common stock outstanding at November 1, 2012.

---

CVR ENERGY, INC. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q  
For The Quarter Ended September 30, 2012

	Page No.
<b><u>Part I. Financial Information</u></b>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets September 30, 2012 (unaudited) and December 31, 2011</u>	<u>6</u>
<u>Condensed Consolidated Statements of Operations Three and Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income Three and Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	<u>7</u>
<u>Condensed Consolidated Statements of Changes in Equity Nine Months Ended September 30, 2012 (unaudited)</u>	<u>8</u>
<u>Condensed Consolidated Statements of Cash Flows Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	<u>9</u>
<u>Notes to the Condensed Consolidated Financial Statements September 30, 2012 (unaudited)</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>11</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</u>
<u>Item 4. Controls and Procedures</u>	<u>95</u>
	<u>96</u>
<b><u>Part II. Other Information</u></b>	
<u>Item 1. Legal Proceedings</u>	<u>97</u>
<u>Item 1A. Risk Factors</u>	<u>97</u>
<u>Item 6. Exhibits</u>	<u>97</u>
<u>Signatures</u>	<u>97</u>
	<u>99</u>

Table of Contents

**GLOSSARY OF SELECTED TERMS**

The following are definitions of certain terms used in this Form 10-Q.

**2-1-1 crack spread** The approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of distillate. The 2-1-1 crack spread is expressed in dollars per barrel.

**ammonia** Ammonia is a direct application fertilizer and is primarily used as a building block for other nitrogen products for industrial applications and finished fertilizer products.

**backwardation market** Market situation in which futures prices are lower in succeeding delivery months. Also known as an inverted market. The opposite of contango market.

**barrel** Common unit of measure in the oil industry which equates to 42 gallons.

**blendstocks** Various compounds that are combined with gasoline or diesel from the crude oil refining process to make finished gasoline and diesel fuel; these may include natural gasoline, fluid catalytic cracking unit or FCCU gasoline, ethanol, reformat or butane, among others.

**bpd** Abbreviation for barrels per day.

**bulk sales** Volume sales through third-party pipelines, in contrast to tanker truck quantity sales.

**capacity** Capacity is defined as the throughput a process unit is capable of sustaining, either on a calendar or stream day basis. The throughput may be expressed in terms of maximum sustainable, nameplate or economic capacity. The maximum sustainable or nameplate capacities may not be the most economical. The economic capacity is the throughput that generally provides the greatest economic benefit based on considerations such as feedstock costs, product values and downstream unit constraints.

**catalyst** A substance that alters, accelerates, or instigates chemical changes, but is neither produced, consumed nor altered in the process.

**coker unit** A refinery unit that utilizes the lowest value component of crude oil remaining after all higher value products are removed, further breaks down the component into more valuable products and converts the rest into pet coke.

**contango market** Market situation in which prices for future delivery are higher than the current or spot market price of the commodity. The opposite of backwardation market.

**corn belt** The primary corn producing region of the United States, which includes Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Ohio and Wisconsin.

**crack spread** A simplified calculation that measures the difference between the price for light products and crude oil. For example, the 2-1-1 crack spread is often referenced and represents the approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of distillate.

**distillates** Primarily diesel fuel, kerosene and jet fuel.

**ethanol** A clear, colorless, flammable oxygenated hydrocarbon. Ethanol is typically produced chemically from ethylene, or biologically from fermentation of various sugars from carbohydrates found in agricultural crops and cellulosic residues from crops or wood. It is used in the United States as a gasoline octane enhancer and oxygenate.

## Edgar Filing: CVR ENERGY INC - Form 10-Q

### Table of Contents

**farm belt** Refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.

**feedstocks** Petroleum products, such as crude oil and natural gas liquids, that are processed and blended into refined products, such as gasoline, diesel fuel and jet fuel, that are produced by a refinery.

**heavy crude oil** A relatively inexpensive crude oil characterized by high relative density and viscosity. Heavy crude oils require greater levels of processing to produce high value products such as gasoline and diesel fuel.

**independent petroleum refiner** A refiner that does not have crude oil exploration or production operations. An independent refiner purchases the crude oil used as feedstock in its refinery operations from third parties.

**light crude oil** A relatively expensive crude oil characterized by low relative density and viscosity. Light crude oils require lower levels of processing to produce high value products such as gasoline and diesel fuel.

**Magellan** Magellan Midstream Partners L.P., a publicly traded company whose business is the transportation, storage and distribution of refined petroleum products.

**MMBtu** One million British thermal units or Btu: a measure of energy. One Btu of heat is required to raise the temperature of one pound of water one degree Fahrenheit.

**natural gas liquids** Natural gas liquids, often referred to as NGLs, are both feedstocks used in the manufacture of refined fuels and are products of the refining process. Common NGLs used include propane, isobutane, normal butane and natural gasoline.

**NYSE** the New York Stock Exchange.

**PADD II** Midwest Petroleum Area for Defense District which includes Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, and Wisconsin.

**Partnership IPO** The initial public offering of 22,080,000 common units representing limited partner interests of CVR Partners, LP (the "Partnership"), which closed on April 13, 2011.

**plant gate price** The unit price of fertilizer, in dollars per ton, offered on a delivered basis and excluding shipment costs.

**petroleum coke (pet coke)** A coal-like substance that is produced during the refining process.

**refined products** Petroleum products, such as gasoline, diesel fuel and jet fuel, that are produced by a refinery.

**sour crude oil** A crude oil that is relatively high in sulfur content, requiring additional processing to remove the sulfur. Sour crude oil is typically less expensive than sweet crude oil.

**spot market** A market in which commodities are bought and sold for cash and delivered immediately.

**sweet crude oil** A crude oil that is relatively low in sulfur content, requiring less processing to remove the sulfur. Sweet crude oil is typically more expensive than sour crude oil.

**throughput** The volume processed through a unit or a refinery or transported on a pipeline.

Table of Contents

**turnaround** A periodically required standard procedure to inspect, refurbish, repair and maintain the refinery or nitrogen fertilizer plant assets. This process involves the shutdown and inspection of major processing units and occurs every four to five years for our refineries and every two years for the nitrogen fertilizer plant.

**UAN** An aqueous solution of urea and ammonium nitrate used as a fertilizer.

**wheat belt** The primary wheat producing region of the United States, which includes Oklahoma, Kansas, North Dakota, South Dakota and Texas.

**WCS** Western Canadian Select crude oil, a medium to heavy, sour crude oil, characterized by an American Petroleum Institute gravity ("API gravity") of between 20 and 22 degrees and a sulfur content of approximately 3.3 weight percent.

**WTI** West Texas Intermediate crude oil, a light, sweet crude oil, characterized by an API gravity, between 39 and 41 degrees and a sulfur content of approximately 0.4 weight percent that is used as a benchmark for other crude oils.

**WTS** West Texas Sour crude oil, a relatively light, sour crude oil characterized by an API gravity of between 30 and 32 degrees and a sulfur content of approximately 2.0 weight percent.

**Wynnewood Acquisition** The acquisition by the Company of all the outstanding shares of the Gary-Williams Energy Corporation and its subsidiaries ("GWEC"), which owned the 70,000 bpd Wynnewood, Oklahoma refinery and 2.0 million barrels of storage tanks, on December 15, 2011. GWEC was subsequently converted to Gary-Williams Energy Company, LLC and is now known as Wynnewood Energy Company, LLC.

**yield** The percentage of refined products that is produced from crude oil and other feedstocks.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CVR ENERGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2012	December 31, 2011
	(unaudited)	
	(in thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 988,197	\$ 388,328
Accounts receivable, net of allowance for doubtful accounts of \$1,858 and \$1,282, respectively	280,620	182,619
Inventories	524,359	636,221
Prepaid expenses and other current assets	32,517	117,509
Insurance receivable	1,233	1,939
Deferred income taxes	36,880	
Income tax receivable	2,011	30,167
<b>Total current assets</b>	<b>1,865,817</b>	<b>1,356,783</b>
Property, plant, and equipment, net of accumulated depreciation	1,722,019	1,672,961
Intangible assets, net	291	312
Goodwill	40,969	40,969
Deferred financing costs, net	15,487	20,319
Insurance receivable	4,076	4,076
Other long-term assets	3,718	23,871
<b>Total assets</b>	<b>\$ 3,652,377</b>	<b>\$ 3,119,291</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Note payable and capital lease obligations	\$ 1,127	\$ 9,880
Accounts payable	425,632	466,559
Personnel accruals	49,614	20,849
Accrued taxes other than income taxes	31,890	35,147
Income taxes payable	14,999	2,400
Due to parent	44,455	
Deferred income taxes		9,271
Deferred revenue	10,373	9,026
Other current liabilities	149,985	34,427
<b>Total current liabilities</b>	<b>728,075</b>	<b>587,559</b>
Long-term liabilities:		
Long-term debt and capital lease obligations, net of current portion	850,937	853,903
Accrued environmental liabilities, net of current portion	1,331	1,459
Deferred income taxes	408,943	357,473
Other long-term liabilities	36,979	19,194
<b>Total long-term liabilities</b>	<b>1,298,190</b>	<b>1,232,029</b>
Commitments and contingencies		
Equity:		
CVR stockholders' equity:		
Common stock \$0.01 par value per share, 350,000,000 shares authorized, 86,929,660 and 86,906,760 shares issued as of September 30, 2012 and December 31, 2011, respectively	869	869
Additional paid-in-capital	582,534	587,199
Retained earnings	905,283	566,855
Treasury stock, 98,610 shares as of September 30, 2012 and December 31, 2011, at cost	(2,303)	(2,303)

Edgar Filing: CVR ENERGY INC - Form 10-Q

Accumulated other comprehensive loss, net of tax	(1,266)	(1,008)
Total CVR stockholders' equity	1,485,117	1,151,612
Noncontrolling interest	140,995	148,091
Total equity	1,626,112	1,299,703
Total liabilities and equity	\$ 3,652,377	\$ 3,119,291

See accompanying notes to the condensed consolidated financial statements.



Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011 (unaudited)	2012	2011
	(in thousands, except share data)			
Net sales	\$ 2,409,624	\$ 1,351,964	\$ 6,686,573	\$ 3,966,945
Operating costs and expenses:				
Cost of product sold (exclusive of depreciation and amortization)	1,702,452	1,026,040	5,211,817	3,086,237
Direct operating expenses (exclusive of depreciation and amortization)	109,929	74,615	319,542	209,256
Insurance recovery business interruption		(490)		(3,360)
Selling, general and administrative expenses (exclusive of depreciation and amortization)	30,390	17,584	147,779	69,017
Depreciation and amortization	33,109	22,025	97,411	66,079
Total operating costs and expenses	1,875,880	1,139,774	5,776,549	3,427,229
Operating income	533,744	212,190	910,024	539,716
Other income (expense):				
Interest expense and other financing costs	(18,962)	(13,757)	(57,189)	(41,152)
Interest income	292	93	515	578
Realized gain (loss) on derivatives, net	(53,271)	66	(80,426)	(18,298)
Unrealized loss on derivatives, net	(115,699)	(9,991)	(196,980)	(6,801)
Loss on extinguishment of debt				(2,078)
Other income, net	(32)	243	794	720
Total other income (expense)	(187,672)	(23,346)	(333,286)	(67,031)
Income before income taxes	346,072	188,844	576,738	472,685
Income tax expense	127,618	68,603	208,971	172,460
Net income	218,454	120,241	367,767	300,225
Less: Net income attributable to noncontrolling interest	9,558	10,976	29,339	20,307
Net income attributable to CVR Energy stockholders	\$ 208,896	\$ 109,265	\$ 338,428	\$ 279,918
Basic earnings per share	\$ 2.41	\$ 1.26	\$ 3.90	\$ 3.24
Diluted earnings per share	\$ 2.41	\$ 1.25	\$ 3.86	\$ 3.19
Weighted-average common shares outstanding:				
Basic	86,831,050	86,549,846	86,820,181	86,462,668
Diluted	86,831,050	87,743,600	87,580,588	87,772,169

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011 (unaudited)	2012	2011
	(in thousands)			
Net income	\$ 218,454	\$ 120,241	\$ 367,767	\$ 300,225
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net of tax of \$1, \$0, \$1 and \$(2)	5	(1)	7	(2)
Change in fair value of interest rate swap, net of tax of \$(103), \$(703), \$(367) and \$(703)	(268)	(1,849)	(965)	(1,849)
Reclass of gain/loss to income on settlement of interest rate swap, net of tax of \$66, \$39, \$194 and \$39	174	104	511	104
Total other comprehensive income (loss)	(89)	(1,746)	(447)	(1,747)
Comprehensive income	218,365	118,495	367,320	298,478
Less: Comprehensive income attributable to noncontrolling interest	9,519	10,247	29,150	19,578
Comprehensive income attributable to CVR stockholders	\$ 208,846	\$ 108,248	\$ 338,170	\$ 278,900

See accompanying notes to condensed consolidated financial statements.

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Common Stockholders						Total CVR Stockholders Equity	Noncontrolling Interest	Total Equity
	Shares Issued	\$0.01 Par Value Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock (unaudited)	Accumulated Other Comprehensive Income (loss)			
(in thousands, except share data)									
Balance at December 31, 2011	86,906,760	\$ 869	\$ 587,199	\$ 566,855	\$ (2,303)	\$ (1,008)	\$ 1,151,612	\$ 148,091	\$ 1,299,703
Distributions to noncontrolling interest holders								(37,839)	(37,839)
Share-based compensation			4,976				4,976	1,593	6,569
Modification and reclassification of equity share-based compensation award to a liability based award			(9,924)				(9,924)		(9,924)
Excess tax benefit from share-based compensation			(12)				(12)		(12)
Exercise of stock options	22,900		413				413		413
Redemption of common units			(118)				(118)		(118)
Net income				338,428			338,428	29,339	367,767
Net unrealized gain on available-for-sale securities, net of tax						7	7		7
Net loss on interest rate swaps, net of tax						(265)	(265)	(189)	(454)
Balance at September 30, 2012	86,929,660	\$ 869	\$ 582,534	\$ 905,283	\$ (2,303)	\$ (1,266)	\$ 1,485,117	\$ 140,995	\$ 1,626,112

See accompanying notes to condensed consolidated financial statements.

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	
	<b>(in thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 367,767	\$ 300,225
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	97,411	66,079
Allowance for doubtful accounts	575	190
Amortization of deferred financing costs	5,862	3,277
Amortization of original issue discount	410	382
Amortization of original issue premium	(2,573)	
Deferred income taxes	13,816	40,920
Excess tax benefit from share-based compensation	(12)	(1,475)
Loss on disposition of assets	1,070	2,234
Loss on extinguishment of debt		2,078
Share-based compensation	28,469	23,636
Unrealized loss on derivatives, net	196,980	6,801
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(98,031)	(3,391)
Inventories	111,862	(61,757)
Prepaid expenses and other current assets	13,700	(17,590)
Insurance receivable	(810)	(12,325)
Business interruption insurance proceeds		3,360
Insurance proceeds for Refinery incident	490	4,000
Other long-term assets	835	(1,116)
Accounts payable	(42,800)	10,822
Due to parent	44,455	
Accrued income taxes	40,755	(17,323)
Deferred revenue	1,347	1,880
Other current liabilities	2,344	(531)
Accrued environmental liabilities	(128)	(952)
Other long-term liabilities	8	(3,506)
<b>Net cash provided by operating activities</b>	<b>783,802</b>	<b>345,918</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(145,053)	(46,631)
Proceeds from sale of assets	421	37
Insurance proceeds for UAN reactor rupture	1,026	2,745
<b>Net cash used in investing activities</b>	<b>(143,606)</b>	<b>(43,849)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on long-term debt	(149)	(2,700)
Payment of capital lease obligations	(630)	(4,876)
Payment of financing costs	(2,016)	(10,695)
Purchase of managing general partner interest and incentive distribution rights		(26,001)
Proceeds from issuance of CVR Partners long-term debt		125,000
Proceeds from CVR Partners initial public offering, net of offering costs		324,880
Payment of treasury stock		(1,757)
Exercise of stock options	413	
Redemption of common units	(118)	
Excess tax benefit of share-based compensation	12	1,475
Distribution to CVR Partners' noncontrolling interest holders	(37,839)	(8,988)

## Edgar Filing: CVR ENERGY INC - Form 10-Q

Net cash (used in) provided by financing activities	(40,327)	396,338
Net cash increase in cash and cash equivalents	599,869	698,407
Cash and cash equivalents, beginning of period	388,328	200,049
Cash and cash equivalents, end of period	\$ 988,197	\$ 898,456
Supplemental disclosures		
Cash paid for income taxes, net of refunds	\$ 109,939	\$ 152,117
Cash paid for interest net of capitalized interest of \$7,134 and \$2,493 in 2012 and 2011, respectively	\$ 37,238	\$ 25,180
Non-cash investing and financing activities:		
Accrual of construction in progress additions	\$ 1,873	\$ 19,511

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2012**

**(unaudited)**

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

*Organization*

The "Company" or "CVR" are used in this report to refer to CVR Energy, Inc. and, unless the context otherwise requires, 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. In addition, the Company, through its majority-owned subsidiaries, owns the general partner and a majority of the common units of CVR Partners, LP, an independent 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.

CVR's common stock is listed on the New York Stock Exchange under the symbol "CVI." On May 7, 2012, Carl C. Icahn and certain of his affiliates (collectively, "Icahn") announced that they had acquired control of CVR pursuant to a tender offer for all of the Company's common stock. As of September 30, 2012, Icahn owned approximately 82% of all outstanding shares. Prior to Icahn's acquisition, the Company was owned 100% by the public. See further discussion at Note 3 ("Change of Control").

As of December 31, 2010, approximately 40% of CVR's outstanding shares were beneficially owned by GS Capital Partners V, L.P. and related entities ("GS" or "Goldman Sachs Funds") and Kelso Investment Associates VII, L.P. and related entities ("Kelso" or "Kelso Funds"). On February 8, 2011, GS and Kelso completed a registered public offering, whereby GS sold into the public market its remaining ownership interests in CVR and Kelso substantially reduced its interest in the Company. On May 26, 2011, Kelso completed a registered public offering, whereby Kelso sold into the public market its remaining ownership interest in CVR Energy.

On December 15, 2011, CVR acquired all of the issued and outstanding shares of Gary-Williams Energy Corporation (subsequently converted to Gary-Williams Energy Company, LLC or "GWEC" and now known as Wynnewood Energy Company, LLC). Assets acquired include a 70,000 bpd refinery in Wynnewood, Oklahoma and approximately 2.0 million barrels of company-owned storage tanks. See Note 4 ("Wynnewood Acquisition") for additional information regarding the Wynnewood Acquisition.

*CVR Partners, LP*

In conjunction with the consummation of CVR's initial public offering in 2007, CVR transferred Coffeyville Resources Nitrogen Fertilizers, LLC ("CRNF"), its nitrogen fertilizer business, to CVR Partners, LP, a Delaware limited partnership ("CVR Partners" or the "Partnership"), which at the time was 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). CVR concurrently sold the managing GP interest, including the associated incentive distribution rights ("IDRs"), to Coffeyville Acquisition III LLC ("CALLC III"), an entity owned by CVR's then controlling stockholders and senior management, for \$10.6 million. On April 13, 2011, the Partnership completed its initial public offering (the "Partnership IPO"), selling 22,080,000 common units at \$16.00

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

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

per unit. The common units trade on the New York Stock Exchange under the symbol "UAN". In connection with the Partnership IPO, the IDRs were purchased by the Partnership for \$26.0 million and subsequently extinguished. In addition, the noncontrolling interest representing the managing GP interest was purchased by Coffeyville Resources, LLC ("CRLLC"), a subsidiary of CVR for a nominal amount. The consideration for the IDRs was paid to the owners of CALLC III, which included the Goldman Sachs Funds, the Kelso Funds and members of CVR senior management. In connection with the Partnership IPO, the Company recorded a noncontrolling interest for the common units sold into the public market which represented an approximately 30% interest in the Partnership at the time of the Partnership IPO. The Company's noncontrolling interest reflected on the condensed consolidated balance sheet of CVR is impacted by the net income of, and distributions from, the Partnership.

At September 30, 2012, the Partnership had 73,046,498 common units outstanding, consisting of 22,126,498 common units owned by the public, representing approximately 30% of the total Partnership units, and 50,920,000 common units owned by CRLLC, representing approximately 70% of the total Partnership units. In addition, CRLLC owns 100% of the Partnership's general partner, CVR GP, LLC, which only holds a non-economic general partner interest.

In connection with the Partnership IPO, the Partnership's limited partner interests were converted into common units, the Partnership's special general partner interests were converted into common units, and the Partnership's special general partner was merged with and into CRLLC, with CRLLC continuing as the surviving entity. In addition, as discussed above, the managing general partner sold its IDRs to the Partnership for \$26.0 million, these interests were extinguished, and CALLC III sold the managing general partner to CRLLC for a nominal amount. As a result of the Partnership IPO, the Partnership has two types of partnership interests outstanding:

common units representing limited partner interests; and

a general partner interest, which is not entitled to any distributions, and which is held by the Partnership's general partner.

The Partnership has adopted a policy pursuant to which the Partnership will distribute all of the available cash it generates each quarter. The available cash for each quarter will be determined by the board of directors of the Partnership's general partner following the end of such quarter. The partnership agreement does not require that the Partnership make cash distributions on a quarterly basis or at all, and the board of directors of the general partner of the Partnership can change the Partnership's distribution policy at any time.

The Partnership is operated by CVR's senior management (together with other officers of the general partner) pursuant to a services agreement among CVR, the general partner and the Partnership. The Partnership's general partner, CVR GP, LLC, manages the operations and activities of the Partnership, subject to the terms and conditions specified in the partnership agreement. The operations of the general partner in its capacity as general partner are managed by its board of directors. Actions by the general partner that are made in its individual capacity will be made by CRLLC as the sole member of the general partner and not by the board of directors of the general partner. The general partner is not elected by the common unitholders and is not subject to re-election

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

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

on a regular basis. The officers of the general partner manage the day-to-day affairs of the business of the Partnership. CVR, the Partnership, their respective subsidiaries and the general partner are parties to a number of agreements which regulate certain business relations between them. Certain of these agreements were amended in connection with the Partnership IPO.

On August 29, 2012, the Partnership's registration statement on Form S-3 (initially filed on August 17, 2012), was declared effective by the Securities and Exchange Commission ("SEC") enabling CRLLC to offer and sell from time to time, in one or more public offerings or direct placements, up to 50,920,000 common units.

***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 condensed consolidated financial statements include the accounts of CVR and its majority-owned direct and indirect subsidiaries including the Partnership and its subsidiary. The ownership interests of noncontrolling investors in its subsidiaries are recorded as a noncontrolling interest included as a separate component of equity for all periods presented. All intercompany account balances and transactions have been eliminated in consolidation. Certain information and footnotes required for complete financial statements under GAAP have been condensed or omitted pursuant to SEC rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the December 31, 2011 audited consolidated financial statements and notes thereto included in CVR's Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the SEC on February 29, 2012.

The Partnership is consolidated on the Company's financial statements based upon the fact that the general partner is owned by CRLLC, a wholly-owned subsidiary of CVR; and, therefore, CVR has the ability to control the activities of the Partnership. Additionally, the Partnership's general partner manages the operations and activities of the Partnership, subject to the terms and conditions specified in the partnership agreement. The operations of the general partner in its capacity as general partner are managed by its board of directors. The limited rights of the common unitholders of the Partnership are demonstrated by the fact that the common unitholders have no right to elect the general partner or the general partner's directors on an annual or other continuing basis. The general partner can only be removed by a vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the outstanding common units, including any common units owned by the general partner and its affiliates (including CRLLC, a wholly-owned subsidiary of CVR) voting together as a single class. Actions by the general partner that are made in its individual capacity will be made by CRLLC as the sole member of the general partner and not by the board of directors of the general partner. The officers of the general partner manage the day-to-day affairs of the business. The majority of the officers of the general partner are also officers of CVR. Based upon the general partner's role and rights as afforded by the partnership agreement and the limited rights afforded to the limited partners, the condensed consolidated financial statements of CVR will include the assets, liabilities, cash flows, revenues and expenses of the Partnership.



Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

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

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, 2012 and December 31, 2011, the results of operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011, changes in equity for the nine months ended September 30, 2012 and cash flows for the nine months ended September 30, 2012 and 2011.

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 ended December 31, 2012 or any other interim period. The preparation of financial statements in conformity with 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. Certain prior year amounts have been reclassified to conform to current year presentation.

The Company evaluated subsequent events, if any, that would require an adjustment or would require disclosure to the Company's condensed consolidated financial statements through the date of issuance of these condensed consolidated financial statements. See Note 20 ("Subsequent Events").

**(2) Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "*Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*," ("ASU 2011-04"). ASU 2011-04 changed the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 also expanded the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance was to be applied prospectively. The provisions of ASU 2011-04 are effective for interim and annual periods beginning after December 15, 2011. The Company adopted this ASU as of January 1, 2012. The adoption of this standard did not impact the condensed consolidated financial statement footnote disclosures.

In June 2011, the FASB issued ASU No. 2011-05, "*Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income*," ("ASU 2011-05") which amends current comprehensive income guidance. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. In December 2011, the FASB issued Accounting Standards Update 2011-12 which defers the requirement in ASU 2011-05 that companies present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. Both amendments are effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. The Company adopted this

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(2) Recent Accounting Pronouncements (Continued)**

standard as of January 1, 2012. The adoption of this standard expanded the Company's condensed consolidated financial statements and related footnote disclosures.

In December 2011, the FASB issued ASU No. 2011-11, "*Disclosures about Offsetting Assets and Liabilities*" ("ASU 2011-11"). ASU 2011-11 retains the existing offsetting requirements and enhances the disclosure requirements to allow investors to better compare financial statements prepared under U.S. GAAP with those prepared under IFRS. This new guidance is to be applied retrospectively. ASU 2011-11 will be effective for interim and annual periods beginning January 1, 2013. The Company believes this standard will expand its condensed consolidated financial statement footnote disclosures.

**(3) Change of Control**

On April 18, 2012, IEP Energy LLC ("IEP Energy"), a majority owned subsidiary of Icahn Enterprises, L.P. ("Icahn Enterprises"), and certain other affiliates of Icahn Enterprises and Carl C. Icahn (collectively, the "IEP Parties"), entered into a Transaction Agreement (the "Transaction Agreement") with CVR, with respect to IEP Energy's tender offer (the "Offer") to purchase all of the issued and outstanding shares of CVR's common stock for a price of \$30 per share in cash, without interest, less any applicable withholding taxes, plus one non-transferable contingent payment right for each share of CVR common stock (the "CCP"), which represents the contractual right to receive an additional cash payment per share if a definitive agreement for the sale of CVR is executed on or prior to August 18, 2013 and such transaction closes. On May 7, 2012, the IEP Parties announced that a majority of CVR's common stock had been acquired through the Offer. As a result of the shares tendered into the Offer and subsequent additional purchases, the IEP Parties owned approximately 82% of CVR's outstanding common stock at September 30, 2012.

Pursuant to the Transaction Agreement, for a period of 60 days CVR Energy solicited proposals or offers from third parties to acquire CVR Energy. The 60-day period began on May 24, 2012 and ended on July 23, 2012 without any qualifying offers.

Pursuant to the Transaction Agreement, all employee restricted stock awards ("awards") that vest in 2012 will vest in accordance with the current vesting terms and upon vesting will receive the offer price of \$30 per share in cash plus one CCP. For all such awards that vest in accordance with their terms in 2013, 2014 and 2015, the holders of the awards will receive the lesser of the offer price or the fair market value as determined at the most recent valuation date of December 31 of each year. Additional share-based compensation was incurred due to the modification of the awards and the fair value upon the date of modification. For awards vesting subsequent to 2012, the awards will be remeasured at each subsequent reporting date until they vest. See further discussion at Note 5 ("Share-Based Compensation").

**(4) Wynnewood Acquisition**

On December 15, 2011, the Company completed the acquisition of all the issued and outstanding shares of GWEC, including its two wholly-owned subsidiaries (the "Wynnewood Acquisition") from The Gary-Williams Company, Inc. (the "Seller"). The preliminary purchase price of \$592.3 million, as recorded at December 31, 2011, was increased by \$1.1 million in March 2012 as a result of further

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(4) Wynnewood Acquisition (Continued)**

discussions and review of the working capital and associated post-closing statement provided to the Seller. The adjusted purchase price allocation resulted in immaterial differences to property, plant and equipment in the Condensed Consolidated Balance Sheet. The Company received settlement in the second quarter of 2012 of approximately \$14.7 million associated with cash paid at closing for estimated working capital in excess of actual working capital.

For the three months and nine months ended September 30, 2012, the Company incurred approximately \$2.0 million and \$10.3 million, respectively, of transaction fees and integration expenses that are included in selling, general and administrative expense in the Condensed Consolidated Statement of Operations. These costs primarily relate to accounting and other professional consulting fees incurred associated with post-closing transaction matters and continued integration of various processes, policies, technologies and systems of GWEC.

**(5) Share-Based Compensation**

Prior to CVR's initial public offering, CVR's subsidiaries were held and operated by Coffeyville Acquisition LLC ("CALLC"). Management of CVR held 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 Coffeyville Acquisition II LLC ("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. 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 and CALLC II account for share-based compensation in accordance with standards issued by the FASB regarding the treatment of share-based compensation, as well as guidance regarding the accounting for share-based compensation granted to employees of an equity method investee. CVR was allocated non-cash share-based compensation expense from CALLC, CALLC II and CALLC III.

In February 2011, CALLC and CALLC II sold 11,759,023 shares and 15,113,254 shares, respectively, of CVR's common stock pursuant to a registered public offering. In May 2011, CALLC sold 7,988,179 shares of CVR's common stock pursuant to a registered public offering.

As a result, CALLC and CALLC II ceased to be stockholders of the Company. Subsequent to CALLC II's divestiture of its ownership interest in the Company in February 2011 and CALLC's divestiture of its ownership interest in the Company in May 2011, no additional share-based compensation expense has been incurred with respect to override units and phantom units after each respective divestiture date. The final fair values of the override units of CALLC and CALLC II were derived based upon the values resulting from the proceeds received in connection with each entity's respective divestiture of its ownership in CVR. These values were utilized to determine the related compensation expense for the unvested units.

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

**(5) Share-Based Compensation (Continued)**

The final fair value of the CALLC III override units was derived based upon the value resulting from the proceeds received by the general partner upon the purchase of the IDR's by the Partnership. These proceeds were subsequently distributed to the owners of CALLC III which includes the override unitholders. This value was utilized to determine the related compensation expense for the unvested units. No additional share-based compensation has been or will be incurred with respect to override units of CALLC III subsequent to June 30, 2011 due to the complete distribution of the value prior to July 1, 2011.

The following table provides key information for the share-based compensation plans related to the override units of CALLC, CALLC II and CALLC III.

Award Type	Benchmark Value (per Unit)	Original Awards Issued	Grant Date	Compensation Expense for the Nine Months Ended September 30, 2011 (in thousands)
Override Value Units	\$ 11.31	1,839,265	June 2005	\$ 4,960
Override Value Units	\$ 34.72	144,966	December 2006	451
Override Units	\$ 10.00	642,219	February 2008	184
			Total	\$ 5,595

Due to the divestiture of all ownership in CVR by CALLC and CALLC II and due to the purchase of the IDRs from the general partner and the distribution of all proceeds to CALLC III, there was no associated unrecognized compensation expense as of September 30, 2012.

***Phantom Unit Appreciation Plans***

CVR, through a wholly-owned subsidiary, has two Phantom Unit Appreciation Plans (the "Phantom Unit Plans") 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 of CALLC and CALLC II receive distributions. Holders of performance phantom points have rights to receive distributions when holders of override value units of CALLC and CALLC II receive distributions. There are no other rights or guarantees and the plans expire on July 25, 2015, or at the discretion of the compensation committee of the board of directors. In November 2010, CALLC and CALLC II sold common shares of CVR through a registered offering. As a result of this offering, the Company made a payment to phantom unit holders totaling approximately \$3.6 million. In November 2009, CALLC II completed a sale of common shares of CVR through a registered offering. As a result of this sale, the Company made a payment to phantom unit holders totaling approximately \$0.9 million. As described above, in February 2011, CALLC and CALLC II completed a sale of CVR common stock pursuant to a registered public offering. As a result of this offering, the Company made a payment to phantom unitholders of approximately \$20.1 million in the first quarter of 2011. As described above, in May 2011, CALLC completed an additional sale of CVR common stock pursuant to a registered public offering. As a result of this offering, the Company made a payment to phantom unitholders of

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2012****(unaudited)****(5) Share-Based Compensation (Continued)**

approximately \$9.2 million in the second quarter of 2011. Due to the divestiture of all ownership of CVR by CALLC and CALLC II in 2011 and the associated payments to the holders of service and phantom performance points, there is no unrecognized compensation expense at September 30, 2012. There was no compensation expense for the three months ended September 30, 2012 and 2011 related to the Phantom Unit Plans. Compensation expense for the nine months ended September 30, 2012 and 2011 related to the Phantom Unit Plans was approximately \$0 and \$10.6 million, respectively.

***Long-Term Incentive Plan***

CVR has a Long-Term Incentive Plan ("LTIP"), which permits the grant of options, stock appreciation rights, non-vested shares, non-vested share units, dividend equivalent rights, share awards and performance awards (including performance share units, performance units and performance-based restricted stock). As of September 30, 2012, only restricted shares of CVR common stock and stock options had been granted under the LTIP. Individuals who are eligible to receive awards and grants under the LTIP include the Company's employees, officers, consultants, advisors and directors. A summary of the principal features of the LTIP is provided below.

***Stock Options***

In May 2012, all outstanding stock options equaling an equivalent of 22,900 common shares were exercised. No unexercised stock options remain as of the third quarter 2012.

***Restricted Stock and Restricted Stock Units***

A summary of restricted stock and restricted stock units grant activity and changes during the nine months ended September 30, 2012 is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2012	1,634,154	\$ 14.61
Granted	50,837	22.52
Vested	(268,012)	8.38
Forfeited	(62,040)	16.68
Non-vested at September 30, 2012	1,354,939	\$ 16.05

Through the LTIP, restricted shares have been granted to employees of the Company. Prior to the change of control as discussed in Note 3, the restricted shares, when granted, were valued at the closing market price of CVR's common stock on the date of issuance and amortized to compensation expense on a straight-line basis over the vesting period of the stock. These shares generally vest over a three-year period.

The change of control and related Transaction Agreement discussed in Note 3 triggered a modification to the LTIP. Pursuant to the Transaction Agreement, all employee restricted stock awards

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(5) Share-Based Compensation (Continued)**

that vest in 2012 will vest in accordance with the current vesting terms and upon vesting will receive the offer price of \$30 per share in cash plus one CCP. For all such awards that vest in accordance with their terms in 2013, 2014 and 2015, the holders of the awards will receive the lesser of the offer price or the fair market value as determined at the most recent valuation date of December 31 of each year. As a result of the modification, additional share-based compensation of approximately \$12.4 million was incurred to revalue the unvested shares to the fair value upon the date of modification. For awards vesting subsequent to 2012, the awards will be remeasured at each subsequent reporting date until they vest. As a result of the modification of the awards, the classification changed from equity awards to liability awards.

As of September 30, 2012, there was approximately \$17.0 million of total unrecognized compensation cost related to restricted shares to be recognized over a weighted-average period of approximately two years. Compensation expense for the three months ended September 30, 2012 and 2011 related to the restricted shares and stock options was approximately \$6.0 million and \$2.0 million, respectively. Compensation expense recorded for the nine months ended September 30, 2012 and 2011 related to the restricted shares and stock options was approximately \$26.8 million and \$6.7 million, respectively.

***CVR Partners Long-Term Incentive Plan***

In connection with the Partnership IPO, the board of directors of the general partner adopted the CVR Partners, LP Long-Term Incentive Plan ("CVR Partners LTIP"). Individuals who are eligible to receive awards under the CVR Partners LTIP include employees, officers, consultants and directors of CVR Partners and its general partner and their respective subsidiaries' parents. The CVR Partners LTIP provides for the grant of options, unit appreciation rights, distribution equivalent rights, restricted units, phantom units and other unit-based awards, each in respect of common units. The maximum number of common units issuable under the CVR Partners LTIP is 5,000,000.

Through the CVR Partners LTIP, phantom and common units have been awarded to employees of the Partnership and the general partner. Units, when granted, are valued at the closing market price of CVR Partners' common units on the date of issuance and amortized to compensation expense on a straight-line basis over the vesting period of the award. These units generally vest over a three year period. As of September 30, 2012, there was approximately \$1.7 million of total unrecognized compensation cost related to the units to be recognized over a weighted-average period of two years. Compensation expense recorded for the three months ended September 30, 2012 and 2011 related to the units was approximately \$0.5 million and \$0.5 million, respectively. Compensation expense recorded for the nine months ended September 30, 2012 and 2011 related to the units was approximately \$1.6 million and \$0.8 million, respectively.

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2012****(unaudited)****(5) Share-Based Compensation (Continued)**

A summary of the CVR Partners LTIP activity during the nine months ended September 30, 2012 is presented below:

	Units	Weighted- Average Grant Date Fair Value
	(in thousands)	
Non-vested at January 1, 2012	164,571	\$ 22.99
Granted		
Vested	(21,159)	20.09
Forfeited		
Non-vested at September 30, 2012	143,412	\$ 23.42

**(6) Inventories**

Inventories consisted of the following:

	September 30, 2012	December 31, 2011
	(in thousands)	
Finished goods	\$ 263,571	\$ 323,315
Raw materials and precious metals	177,615	157,931
In-process inventories	36,450	115,372
Parts and supplies	46,723	39,603
	\$ 524,359	\$ 636,221

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2012****(unaudited)****(7) Property, Plant, and Equipment**

A summary of costs for property, plant, and equipment is as follows:

	September 30, 2012	December 31, 2011
	(in thousands)	
Land and improvements	\$ 28,520	\$ 26,136
Buildings	38,824	37,289
Machinery and equipment	2,018,529	1,967,269
Automotive equipment	12,441	10,217
Furniture and fixtures	13,365	12,349
Leasehold improvements	2,469	1,445
Railcars	2,496	2,496
Construction in progress	177,858	94,085
	2,294,502	2,151,286
Accumulated depreciation	572,483	478,325
	\$ 1,722,019	\$ 1,672,961

Capitalized interest recognized as a reduction in interest expense for the three months ended September 30, 2012 and 2011 totaled approximately \$2.8 million and \$1.6 million. Capitalized interest recognized as a reduction in interest expense for the nine months ended September 30, 2012 and 2011 totaled approximately \$7.1 million and \$2.5 million. Land, buildings and equipment that are under a capital lease obligation had an original carrying value of approximately \$25.1 million and \$0.3 million as of September 30, 2012 and 2011. Amortization of assets held under capital leases is included in depreciation expense.

**(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 approximately \$1.0 million and \$0.6 million for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, cost of product sold excludes depreciation and amortization of approximately \$2.6 million and \$1.9 million, respectively.

Direct operating expenses (exclusive of depreciation and amortization) includes direct costs of labor, maintenance and services, energy and utility costs, property taxes, environmental compliance costs, as well as chemicals and catalysts and other direct operating expenses. Direct operating expenses exclude depreciation and amortization of approximately \$31.6 million and \$21.0 million for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, direct operating expenses exclude depreciation and amortization of approximately \$93.1 million and \$62.8 million, respectively.

Selling, general and administrative expenses (exclusive of depreciation and amortization) consist primarily of legal expenses, treasury, accounting, marketing, human resources and costs associated with



Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2012****(unaudited)****(8) Cost Classifications (Continued)**

maintaining the corporate and administrative office in Texas and the administrative offices in Kansas and Oklahoma. Selling, general and administrative expenses exclude depreciation and amortization of approximately \$0.5 million and \$0.4 million for the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, selling, general and administrative expenses exclude depreciation and amortization of approximately \$1.7 million and \$1.4 million, respectively.

**(9) Note Payable and Capital Lease Obligations**

The Company entered into an insurance premium finance agreement in November 2011 to finance a portion of the purchase of its 2011/2012 property insurance policies. The original balance of the note provided by the Company under such agreement was \$9.9 million. The Company began to repay this note in equal installments commencing December 1, 2011. As of September 30, 2012 and December 31, 2011, the Company owed \$0 and approximately \$8.8 million, respectively, related to this note.

The Company also entered into a capital lease for real property used for corporate purposes on May 29, 2008. The lease had an initial lease term of one year with an option to renew for three additional one-year periods. During the second quarter of 2010, the Company renewed the lease for a one-year period commencing June 5, 2010. The Company had the option to purchase the property during the term of the lease, including the renewal periods. In March 2011, the Company exercised its purchase option and paid approximately \$4.7 million to satisfy the lease obligation.

As a result of the Wynnewood Acquisition, the Company assumed two leases accounted for as capital leases related to the Magellan Pipeline Terminals, L.P. and Excel Pipeline LLC. The two arrangements have remaining terms of 204 and 205 months, respectively. As of September 30, 2012, the outstanding obligation associated with these arrangements totaled approximately \$52.5 million. See Note 13 ("Long-Term Debt") for additional information.

**(10) Other Current Liabilities**

Other current liabilities were as follows:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
	<b>(in thousands)</b>	
Other derivative agreements (realized)	\$ 17,725	\$
Other derivative agreements (unrealized)	89,304	
Accrued interest	34,119	17,867
Partnership interest rate swap	828	905
Other liabilities	8,009	15,655
	<b>\$ 149,985</b>	<b>\$ 34,427</b>

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(11) Insurance Claims**

*Nitrogen Fertilizer Incident*

On September 30, 2010, the nitrogen fertilizer plant experienced an interruption in operations due to a rupture of a high-pressure UAN vessel. Total costs due to the incident were approximately \$11.5 million for repairs and maintenance and other associated costs, of which approximately \$4.7 million was capitalized. Approximately \$0.1 million and \$0.8 million of these costs were recognized during the nine months ended September 30, 2012 and 2011, respectively, and are included in direct operating expenses (exclusive of depreciation and amortization). Amounts recognized for the three months ended September 30, 2012 and 2011 were not material.

Approximately \$8.0 million of insurance proceeds were received under the property damage insurance claim related to this incident. Approximately \$1.0 million and \$2.5 million of these proceeds were received during the three months ended September 30, 2012 and 2011, respectively. Approximately \$1.0 million and \$2.7 million of these proceeds were received during the nine months ended September 30, 2012 and 2011, respectively. The recording of the insurance proceeds resulted in a reduction of direct operating expenses (exclusive of depreciation and amortization) when received.

Total proceeds received for insurance indemnity under the business interruption insurance related to the incident were approximately \$3.4 million, of which approximately \$0.5 million and \$3.4 million was recorded for the three and nine months ending September 30, 2011, respectively. Business interruption insurance proceeds were included in the Consolidated Statements of Operations, under Insurance Recovery-business interruption.

As of September 30, 2012, all property damage and business interruption claims related to the nitrogen fertilizer incident have been fully settled with all claims closed.

*Coffeyville Refinery Incidents*

On December 28, 2010 the Coffeyville crude oil refinery experienced an equipment malfunction and small fire in connection with its fluid catalytic cracking unit ("FCCU"), which led to reduced crude oil throughput. The refinery returned to full operations on January 26, 2011. This interruption adversely impacted the production of refined products for the petroleum business in the first quarter of 2011. Total gross repair and other costs recorded related to the incident as of December 31, 2011 were approximately \$8.0 million. No costs have been recorded in 2012. The Company maintains property damage insurance policies which have an associated deductible of \$2.5 million. The Company anticipates that substantially all of the costs in excess of the deductible should be covered by insurance. As of December 31, 2011, the Company had received \$4.0 million of insurance proceeds and has recorded an insurance receivable related to the incident of approximately \$1.2 million as of September 30, 2012. The insurance receivable is included in other current assets in the Condensed Consolidated Balance Sheet.

The Coffeyville crude oil refinery experienced a small fire at its continuous catalytic reformer ("CCR") in May 2011. Total gross repair and other costs related to the incident, as of September 30, 2012, were approximately \$3.2 million. No costs have been recorded in 2012. Approximately \$0.5 million of insurance proceeds were received during the three months ended September 30, 2012.

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(11) Insurance Claims (Continued)**

As of September 30, 2012, the Company has recorded an insurance receivable of approximately \$0.2 million. During October 2012, the remaining insurance proceeds of \$0.2 million were received and all claims associated with the fire at the CCR have been fully settled and closed. Substantially all costs incurred in excess of the associated \$2.5 million deductible were recovered by insurance.

**(12) Income Taxes**

On May 19, 2012, CVR became a member of the consolidated federal tax group of American Entertainment Properties Corporation ("AEPC"), a wholly-owned subsidiary of Icahn Enterprises, and subsequently entered into a tax allocation agreement with AEPC (the "Tax Allocation Agreement"). The Tax Allocation Agreement provides that AEPC will pay all consolidated federal income taxes on behalf of the consolidated tax group. CVR is required to make payments to AEPC in an amount equal to the tax liability, if any, that it would have paid if it were to file as a consolidated group separate and apart from AEPC.

As of September 30, 2012, the Company owes approximately \$44.5 million for federal income taxes due to AEPC under the Tax Allocation Agreement, is to be paid during the fourth quarter of 2012. During the quarter ended September 30, 2012, the Company paid \$65.1 million to AEPC under the Tax Allocation Agreement.

The Company recognizes liabilities, interest and penalties for potential tax issues based on its estimate of whether, and the extent to which, additional taxes may be due as determined under ASC Topic 740 *Income Taxes*. As of September 30, 2012, the Company had unrecognized tax benefits of approximately \$26.1 million, of which \$8.0 million, if recognized, would impact the Company's effective tax rate. Unrecognized tax benefits that are not expected to be settled within the next twelve months are included in other long-term liabilities in the condensed consolidated balance sheet; unrecognized tax benefits that are expected to be settled within the next twelve months are included in income taxes payable. The Company has accrued interest of \$0.2 million and penalties of \$0.1 million 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. At September 30, 2012, the Company's tax filings are generally open to examination in the United States for the tax years ended December 31, 2009 through December 31, 2011 and in various individual states for the tax years ended December 31, 2008 through December 31, 2011.

The Company's effective tax rate for the three and nine months ended September 30, 2012 was 36.9% and 36.2%, respectively, as compared to the Company's combined federal and state expected statutory tax rate of 39.4%. The Company's effective tax rate for the three and nine months ended September 30, 2012 is lower than the statutory rate primarily due to the reduction of income subject to tax associated with the noncontrolling ownership interest of CVR Partners, LP, as well as benefits for domestic production activities. The Company's effective tax rate for the three and nine months ended September 30, 2011 was 36.3% and 36.5%, respectively, as compared to the Company's combined federal and state expected statutory tax rate of 39.7%. The Company's effective tax rate for the three and nine months ended September 30, 2011 was lower than the statutory rate primarily due to the

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2012****(unaudited)****(12) Income Taxes (Continued)**

reduction of income subject to tax associated with the noncontrolling ownership interest of CVR Partners' earnings, as well as benefits for domestic production activities.

**(13) Long-Term Debt**

Long-term debt was as follows:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
	<b>(in thousands)</b>	
9.0% Senior Secured Notes, due 2015, net of unamortized premium of \$6,604(1) and \$9,003(2) as of September 30, 2012 and December 31, 2011, respectively	\$ 453,654	\$ 456,053
10.875% Senior Secured Notes, due 2017, net of unamortized discount of \$1,923 and \$2,159 as of September 30, 2012 and December 31, 2011, respectively	220,827	220,591
CRNF credit facility	125,000	125,000
Capital lease obligations	51,456	52,259
<b>Long-term debt</b>	<b>\$ 850,937</b>	<b>\$ 853,903</b>

(1) Net unamortized premium of \$6.6 million represents an unamortized discount of \$0.7 million on the original First Lien Notes and an \$7.3 million unamortized premium on the additional First Lien Notes issued in December 2011.

(2) Net unamortized premium of \$9.0 million represents an unamortized discount of \$0.9 million on the original First Lien Notes and a \$9.9 million unamortized premium on the additional First Lien Notes issued in December 2011.

**Senior Secured Notes**

On April 6, 2010, CRLLC and its wholly-owned subsidiary, Coffeyville Finance Inc. (together the "Issuers"), completed a private offering of \$275.0 million aggregate principal amount of 9.0% First Lien Senior Secured Notes due 2015 (the "First Lien Notes") and \$225.0 million aggregate principal amount of 10.875% Second Lien Senior Secured Notes due 2017 (the "Second Lien Notes" and together with the First Lien Notes, the "Notes"). The First Lien Notes were issued at 99.511% of their principal amount and the Second Lien Notes were issued at 98.811% of their principal amount. The associated original issue discount of the Notes is amortized to interest expense and other financing costs over the respective term of the Notes. On December 30, 2010, CRLLC made a voluntary unscheduled principal payment of approximately \$27.5 million on the First Lien Notes that resulted in a premium payment of 3.0% and a partial write-off of previously deferred financing costs and unamortized original issue discount totaling approximately \$1.6 million. On May 16, 2011, CRLLC repurchased \$2.7 million of the Notes at a purchase price of 103.0% of the outstanding principal amount, which resulted in a premium payment of 3.0% and a partial write-off of previously deferred financing costs and unamortized issue discount.

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(13) Long-Term Debt (Continued)**

On December 15, 2011, the Issuers sold an additional \$200.0 million aggregate principal amount of 9.0% First Lien Senior Secured Notes due 2015 ("New Notes"). The New Notes were sold at an issue price of 105.0%, plus accrued interest from October 1, 2011 of \$3.7 million. The associated original issue premium of the New Notes is amortized to interest expense and other financing costs over the respective term of the New Notes. The New Notes were issued as "Additional Notes" pursuant to the indenture dated April 6, 2010 (the "Indenture") and, together with the existing first lien notes, are treated as a single class for all purposes under the Indenture including, without limitation, waivers, amendments, redemptions and other offers to purchase. Unless otherwise indicated, the New Notes and the existing first lien notes are collectively referred to herein as the "First Lien Notes."

The change of control discussed in Note 3 required CVR to make an offer to repurchase all of the Issuers' outstanding Notes; and on June 4, 2012, the Issuers offered to purchase all or any part of the Notes, at a cash purchase price of 101% of the aggregate principal amount of the Notes, plus accrued and unpaid interest, if any. The offer expired on July 5, 2012 with none of the outstanding Notes tendered.

The First Lien Notes were scheduled to mature on April 1, 2015, unless earlier redeemed or repurchased by the Issuers. See Note 20 ("Subsequent Events") for further discussion related to the recent tender of a portion of the First Lien Notes. The Second Lien Notes mature on April 1, 2017, unless earlier redeemed or repurchased by the Issuers. Interest is payable on the Notes semi-annually on April 1 and October 1 of each year. At September 30, 2012, the estimated fair value of the First and Second Lien Notes was approximately \$484.3 million and \$247.3 million, respectively. These estimates of fair value are Level 2 as they were determined by quotations obtained from a broker-dealer who makes a market in these and similar securities. The Notes are fully and unconditionally guaranteed by each of CRLLC's subsidiaries other than the Partnership and CRNF.

***ABL Credit Facility***

On February 22, 2011, CRLLC entered into a \$250.0 million asset-backed revolving credit agreement ("ABL credit facility") with a group of lenders including Deutsche Bank Trust Company Americas as collateral and administrative agent. The ABL credit facility is scheduled to mature in August 2015 and replaced the \$150.0 million first priority credit facility which was terminated. The ABL credit facility will be used to finance ongoing working capital, capital expenditures, letters of credit issuance and general needs of the Company and includes among other things, a letter of credit sublimit equal to 90% of the total facility commitment and a feature which permits an increase in borrowings of up to \$250.0 million (in the aggregate), subject to additional lender commitments. On December 15, 2011, CRLLC entered into an incremental commitment agreement to increase the borrowings under the ABL credit facility to \$400.0 million in the aggregate in connection with the New Notes issuance as discussed above. Terms of the ABL credit facility did not change as a result of the additional availability. As of September 30, 2012, CRLLC had availability under the ABL credit facility of \$372.8 million and had letters of credit outstanding of approximately \$27.2 million. There were no borrowings outstanding under the ABL credit facility as of September 30, 2012.

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(13) Long-Term Debt (Continued)**

Borrowings under the facility bear interest based on a pricing grid determined by the previous quarter's excess availability. The pricing for borrowings under the ABL credit facility can range from LIBOR plus a margin of 2.75% to LIBOR plus 3.0% or the prime rate plus 1.75% to prime rate plus 2.0% for Base Rate Loans. Availability under the ABL credit facility is determined by a borrowing base formula supported primarily by cash and cash equivalents, certain accounts receivable and inventory.

The ABL credit facility contains customary covenants for a financing of this type that limit, subject to certain exceptions, the incurrence of additional indebtedness, the incurrence of liens on assets, and the ability to dispose of assets, make restricted payments, investments or acquisitions, enter into sales lease back transactions or enter into affiliate transactions. The ABL credit facility also contains a fixed charge coverage ratio financial covenant that is triggered when borrowing base excess availability is less than certain thresholds, as defined under the facility. As of September 30, 2012, CRLLC was in compliance with the covenants contained in the ABL credit facility.

In connection with the ABL credit facility, CRLLC incurred lender and other third-party costs of approximately \$9.1 million for the year ended December 31, 2011. These costs will be deferred and amortized to interest expense and other financing costs using a straight-line method over the term of the facility. In connection with termination of the first priority credit facility, a portion of the unamortized deferred financing costs associated with this facility, totaling approximately \$1.9 million, was written off in the first quarter of 2011. In accordance with guidance provided by the FASB regarding the modification of revolving debt arrangements, the remaining approximately \$0.8 million of unamortized deferred financing costs associated with the first priority credit facility will continue to be amortized over the term of the ABL credit facility.

In connection with the closing of the Partnership's initial public offering in April 2011, the Partnership and CRNF were released as guarantors of the ABL credit facility.

In connection with the change in control described in Note 3 above, CRLLC, Deutsche Bank Trust Company Americas, as Administrative Agent and Collateral Agent, the lenders and the other parties thereto, entered into a First Amendment to Credit Agreement effective as of May 7, 2012 (the "ABL First Amendment"), pursuant to which the parties agreed to exclude Icahn's acquisition of Shares from the definition of change of control as provided in the ABL credit facility. Absent the ABL First Amendment, the change in control of CVR described above would have triggered an event of default pursuant to the ABL credit facility.

***Partnership Credit Facility***

On April 13, 2011, CRNF, as borrower, and the Partnership, as guarantor, entered into a new credit facility with a group of lenders including Goldman Sachs Lending Partners LLC, as administrative and collateral agent. The credit facility includes a term loan facility of \$125.0 million and a revolving credit facility of \$25.0 million, with an uncommitted incremental facility of up to \$50.0 million. No amounts were outstanding under the revolving credit facility at September 30, 2012. There is no scheduled amortization of the credit facility, which matures in April 2016. The carrying value of the Partnership's debt approximates fair value.

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(13) Long-Term Debt (Continued)**

Borrowings under the credit facility bear interest based on a pricing grid determined by the trailing four quarter leverage ratio. The initial pricing for Eurodollar rate loans under the credit facility is the Eurodollar rate plus a margin of 3.50% or, for base rate loans, the prime rate plus 2.50%. Under its terms, the lenders under the credit facility were granted a first priority security interest (subject to certain customary exceptions) in substantially all of the assets of CRNF and the Partnership.

The credit facility requires the Partnership to maintain a minimum interest coverage ratio and a maximum leverage ratio and contains customary covenants for a financing of this type that limit, subject to certain exceptions, the incurrence of additional indebtedness or guarantees, the creation of liens on assets and the ability of the Partnership to dispose of assets, to make restricted payments, investments and acquisitions, or enter into sale-leaseback transactions and affiliate transactions. The credit facility provides that the Partnership can make distributions to holders of its common units provided, among other things, it is in compliance with the leverage ratio and interest coverage ratio on a pro forma basis after giving effect to any distribution and there is no default or event of default under the credit facility.

As of September 30, 2012, CRNF was in compliance with the covenants contained in the credit facility.

In connection with the credit facility, the Partnership incurred lender and other third-party costs of approximately \$4.8 million. The costs associated with the credit facility have been deferred and are being amortized over the term of the credit facility as interest expense using the effective-interest amortization method for the term loan facility and the straight-line method for the revolving credit facility.

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

**(14) Earnings Per Share**

Basic and diluted earnings per share are computed by dividing net income attributable to CVR stockholders by the weighted-average number of shares of common stock outstanding. The components of the basic and diluted earnings per share calculation are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands, except share data)			
Net income attributable to CVR Energy stockholders	\$ 208,896	\$ 109,265	\$ 338,428	\$ 279,918
Weighted-average number of shares of common stock outstanding	86,831,050	86,549,846	86,820,181	86,462,668
Effect of dilutive securities:				
Non-vested common stock		1,188,297	757,480	1,305,096
Stock options		5,457	2,927	4,405
Weighted-average number of shares of common stock outstanding assuming dilution	86,831,050	87,743,600	87,580,588	87,772,169
Basic earnings per share	\$ 2.41	\$ 1.26	\$ 3.90	\$ 3.24
Diluted earnings per share	\$ 2.41	\$ 1.25	\$ 3.86	\$ 3.19

All outstanding stock options totaling 22,900 were exercised in May 2012. There were no equity awards outstanding during the three months ended September 30, 2012 as all unvested awards under the LTIP were liability awards. See Note 5 ("Share-Based Compensation").



Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

## (15) Commitments and Contingencies

*Leases and Unconditional Purchase Obligations*

The minimum required payments for CVR's lease agreements and unconditional purchase obligations are as follows:

	Operating Leases	Unconditional Purchase Obligations(1)
	(in thousands)	
Three months ending December 31, 2012	\$ 2,608	\$ 32,173
Year ending December 31, 2013	9,823	126,693
Year ending December 31, 2014	7,839	113,667
Year ending December 31, 2015	6,344	103,189
Year ending December 31, 2016	5,467	96,637
Thereafter	9,230	460,535
	\$ 41,311	\$ 932,894

(1)

This amount includes approximately \$482.8 million payable ratably over nine years pursuant to petroleum transportation service agreements between CRRM and TransCanada Keystone Pipeline, LP ("TransCanada"). Under the agreements, CRRM will receive transportation for at least 25,000 barrels per day of crude oil with a delivery point at Cushing, Oklahoma for a term of ten years on TransCanada's Keystone pipeline system. CRRM began receiving crude oil under the agreements in the first quarter of 2011.

CVR leases various equipment, including rail cars, and real properties under long-term operating leases expiring at various dates. For the three months ended September 30, 2012 and 2011, lease expense totaled approximately \$1.2 million and \$1.3 million, respectively. For the nine months ended September 30, 2012 and 2011, lease expense totaled approximately \$3.9 million and \$3.8 million, respectively. The lease agreements have various remaining terms. Some agreements are renewable, at CVR's option, for additional periods. It is expected, in the ordinary course of business, that leases will be renewed or replaced as they expire. Additionally, in the normal course of business, the Company has long-term commitments to purchase oxygen, nitrogen, electricity, storage capacity and pipeline transportation services.

CVR Partners entered into a pet coke supply agreement with HollyFrontier Corporation which became effective on March 1, 2012. The initial term ends in 2013 and the agreement is subject to renewal.

*Crude Oil Supply Agreement*

On August 31, 2012, CRRM, an indirect, wholly-owned subsidiary of CVR Energy, and Vitol Inc. ("Vitol"), entered into an Amended and Restated Crude Oil Supply Agreement (the "Vitol Agreement"). The Vitol Agreement amends and restates the Crude Oil Supply Agreement between CRRM and Vitol dated March 30, 2011, as amended (the "Previous Supply Agreement"). The terms of

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(15) Commitments and Contingencies (Continued)**

the Vitol Agreement provide that CRRM will obtain all of the crude oil for the Company's two oil refineries through Vitol, other than crude oil that CRRM gathers itself in Kansas, Missouri, North Dakota, Oklahoma, Texas, Wyoming and all states adjacent to such states and crude oil that is transported in whole or in part via railcar or truck. Pursuant to the Vitol Agreement, CRRM and Vitol work together to identify crude oil and pricing terms that meet CRRM's crude oil requirements. CRRM and/or Vitol negotiate the cost of each barrel of crude oil that is purchased from third-party crude oil suppliers. Vitol purchases all such crude oil, executes all third-party sourcing transactions and provides transportation and other logistical services for the subject crude oil. Vitol then sells such crude oil and delivers the same to CRRM. Title and risk of loss for all crude oil purchased by CRRM via the Vitol Agreement passes to CRRM upon delivery to one of the Company's delivery points designated in the Vitol Agreement. CRRM pays Vitol a fixed origination fee per barrel plus the negotiated cost (including logistics costs) of each barrel of crude oil purchased. The Vitol Agreement has an initial term commencing on August 31, 2012 and extending through December 31, 2014 (the "Initial Term"). Following the Initial Term, the Vitol Agreement will automatically renew for successive one-year terms (each such term, a "Renewal Term") unless either party provides the other with notice of nonrenewal at least 180 days prior to expiration of the Initial Term or any Renewal Term. Notwithstanding the foregoing, CRRM has an option to terminate the Vitol Agreement effective December 31, 2013 by providing written notice of termination to Vitol on or before May 1, 2013.

***Litigation***

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 ("EHS") Matters." Liabilities related to such litigation are recognized when the related costs are probable and can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. It is possible that management's estimates of the outcomes will change due to uncertainties inherent in litigation and settlement negotiations. In the opinion of management, the ultimate resolution of any litigation matters is not expected to have a material adverse effect on the Company's results of operation or financial condition. There can be no assurance that management's beliefs or opinions with respect to liability for potential litigation matters are accurate.

Samson Resources Company, Samson Lone Star, LLC and Samson Contour Energy E&P, LLC (together, "Samson") filed fifteen lawsuits in federal and state courts in Oklahoma and two lawsuits in state courts in New Mexico against CRRM and other defendants between March 2009 and July 2009. In addition, in May 2010, separate groups of plaintiffs filed two lawsuits (the "Anstine and Arrow cases") against CRRM and other defendants in state court in Oklahoma and Kansas. All of the lawsuits filed in state court were removed to federal court. All of the lawsuits (except for the New Mexico suits, which remained in federal court in New Mexico) were then transferred to the Bankruptcy Court for the United States District Court for the District of Delaware, where the Sem Group bankruptcy resides. In March 2011, CRRM was dismissed without prejudice from the New Mexico suits. All of the lawsuits allege that Samson or other respective plaintiffs sold crude oil to a group of

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(15) Commitments and Contingencies (Continued)**

companies, which generally are known as SemCrude or SemGroup (collectively, "Sem"), which later declared bankruptcy and that Sem has not paid such plaintiffs for all of the crude oil purchased from Sem. The Samson lawsuits further allege that Sem sold some of the crude oil purchased from Samson to J. Aron & Company ("J. Aron") and that J. Aron sold some of this crude oil to CRRM. All of the lawsuits seek the same remedy, the imposition of a trust, an accounting and the return of crude oil or the proceeds therefrom. The amount of the plaintiffs' alleged claims is unknown since the price and amount of crude oil sold by the plaintiffs and eventually received by CRRM through Sem and J. Aron, if any, is unknown. CRRM timely paid for all crude oil purchased from J. Aron. On January 26, 2011, CRRM and J. Aron entered into an agreement whereby J. Aron agreed to indemnify and defend CRRM from any damage, out-of-pocket expense or loss in connection with any crude oil involved in the lawsuits which CRRM purchased through J. Aron, and J. Aron agreed to reimburse CRRM's prior attorney fees and out-of-pocket expenses in connection with the lawsuits. Samson and CRRM entered a stipulation of dismissal with respect to all of the Samson cases and the Samson cases were dismissed with prejudice on February 8, 2012. The dismissal does not pertain to the Anstine and Arrow cases.

On June 21, 2012, Goldman, Sachs & Co. ("GS") filed suit against CVR in state court in New York, alleging that CVR failed to pay GS approximately \$18.5 million in fees allegedly due to GS by CVR pursuant to an engagement letter dated March 21, 2012, which according to the allegations set forth in the complaint, provided that GS was engaged by CVR to assist CVR and the CVR board of directors in connection with a tender offer for CVR's stock, made by Carl C. Icahn and certain of his affiliates. CVR believes it has meritorious defenses and intends to vigorously defend against the suit. This amount has been fully accrued as of September 30, 2012.

On August 10, 2012, Deutsche Bank ("DB") filed suit against CVR in state court in New York, alleging that CVR failed to pay DB approximately \$18.5 million in fees allegedly due to DB by CVR pursuant to an engagement letter dated March 23, 2012, which according to the allegations set forth in the complaint, provided that DB was engaged by CVR to assist CVR and the CVR board of directors in connection with a tender offer for CVR's stock made by Carl C. Icahn and certain of his affiliates. CVR believes it has meritorious defenses and intends to vigorously defend against the suit. This amount has been fully accrued as of September 30, 2012.

CRNF received a ten year property tax abatement from Montgomery County, Kansas in connection with the construction of the nitrogen fertilizer plant that expired on December 31, 2007. In connection with the expiration of the abatement, the county reassessed CRNF's nitrogen fertilizer plant and classified the nitrogen fertilizer plant as almost entirely real property instead of almost entirely personal property. The reassessment resulted in an increase in CRNF's annual property tax expense by an average of approximately \$10.7 million per year for the years ended December 31, 2008 and December 31, 2009, \$11.7 million for the year ended December 31, 2010 and \$11.4 million for the year ended December 31, 2011. CRNF did not agree with the county's classification of its nitrogen fertilizer plant and protested the classification and resulting valuation for each of those years to the Kansas Court of Tax Appeals, or COTA. However, CRNF has fully accrued and paid the property taxes the county claims are owed for the years ended December 31, 2011, 2010, 2009 and 2008 and has estimated and accrued for property tax for the first nine months of 2012. This property tax expense is reflected as a direct operating expense in our financial results. In February 2011, CRNF tried the 2008 case to

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(15) Commitments and Contingencies (Continued)**

COTA and in January 2012, COTA issued its decision holding that CRNF's fertilizer plant was almost entirely real property instead of almost entirely personal property was appropriate. CRNF disagreed with the ruling and filed a petition for reconsideration with COTA (which was denied) and then filed an appeal to the Kansas Court of Appeals. CRNF is also protesting the valuation of the CRNF fertilizer plant for tax years 2009 through 2012, which cases remain pending before COTA. If CRNF is successful in having the nitrogen fertilizer plant reclassified as personal property, in whole or in part, then a portion of the accrued and paid property tax expenses would be refunded to CRNF, which could have a material positive effect on our results of operations. If CRNF is not successful in having the nitrogen fertilizer plant reclassified as personal property, in whole or in part, then CRNF expects that it will continue to pay property taxes at elevated rates.

On July 25, 2011, Mid-America Pipeline Company, LLC ("MAPL") filed an application with the Kansas Corporation Commission ("KCC") for the purpose of establishing higher rates ("New Rates") effective October 1, 2011 for pipeline transportation service on MAPL's liquids pipelines running between Conway, Kansas and Coffeyville, Kansas ("Inbound Line") and between Coffeyville, Kansas and El Dorado, Kansas ("Outbound Line"). CRRM ships refined fuels on the Outbound Line and CRRM ships natural gas liquids on the Inbound Line. On April 3, 2012, the parties entered into a Settlement Agreement which resolved the rate dispute both at the KCC and at the U.S. Federal Energy Regulatory Commission ("FERC"). Among other provisions, the Settlement Agreement provides for pipeage contracts to be entered into between the parties with rates ("Settlement Rates") to be established for an initial one year period. The Settlement Rates consist of two components, a base rate and a pipeline integrity cost recovery rate along with an annual take or pay minimum transportation quantity. The Settlement Rate on the Inbound Line was effective April 1, 2012 and the Settlement Rate on the Outbound Line was effective June 1, 2012. Prior to the end of the initial one year term of the pipeage contracts, and prior to the end of each annual period thereafter until the tenth anniversary of each of the two pipeage contracts, MAPL will provide its estimate of pipeline integrity costs for the upcoming annual period and CRRM may either agree to pay a rate for such upcoming annual period which includes a recovery rate component sufficient to collect such pipeline integrity costs for such upcoming annual period subject to true-up to actual costs at the end of the annual period. FERC rates will be the same as the KCC rates.

***Flood, Crude Oil Discharge and Insurance***

Crude oil was discharged from the Company's Coffeyville 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 the discharge, the Company received in May 2008 notices of claims from sixteen private claimants under the Oil Pollution Act ("OPA") in an aggregate amount of approximately \$4.4 million (plus punitive damages). In August 2008, those claimants filed suit against the Company in the United States District Court for the District of Kansas in Wichita (the "Angleton Case"). In October 2009 and June 2010, companion cases to the Angleton Case were filed in the United States District Court for the District of Kansas in Wichita, seeking a total of approximately \$3.2 million (plus punitive damages) for three additional plaintiffs as a result of the July 1, 2007 crude oil discharge. The Company has settled all of the claims with the plaintiffs from the Angleton Case and

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(15) Commitments and Contingencies (Continued)**

has settled all of the claims except for one of the plaintiffs from the companion cases. The settlements did not have a material adverse effect on the condensed consolidated financial statements. The Company believes that the resolution of the remaining claim will not have a material adverse effect on the condensed 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 (the "Consent Order") with the U.S. Environmental Protection Agency (the "EPA") on July 10, 2007. As set forth in the Consent Order, the EPA concluded that the discharge of crude oil from the Company's Coffeyville refinery caused 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 substantial majority of all required remedial actions were completed by January 31, 2009. The Company prepared and provided its final report to the EPA in January 2011 to satisfy the final requirement of the Consent Order. In April 2011, the EPA provided the Company with a notice of completion indicating that the Company has no continuing obligations under the Consent Order, while reserving its rights to recover oversight costs and penalties.

On October 25, 2010, the Company received a letter from the United States Coast Guard on behalf of the EPA seeking approximately \$1.8 million in oversight cost reimbursement. The Company responded by asserting defenses to the Coast Guard's claim for oversight costs. On September 23, 2011, the United States Department of Justice ("DOJ"), acting on behalf of the EPA and the United States Coast Guard, filed suit against CRRM in the United States District Court for the District of Kansas seeking (i) recovery from CRRM of the EPA's oversight costs under the OPA, (ii) a civil penalty under the Clean Water Act (as amended by the OPA) and (iii) recovery from CRRM related to alleged non-compliance with the Clean Air Act's Risk Management Program ("RMP"). (See "Environmental, Health and Safety ("EHS") Matters" below.) The Company has reached an agreement in principle with the DOJ to resolve the DOJ's claims. The Company anticipates that civil penalties associated with the proceeding will exceed \$100,000; however, the Company does not anticipate that civil penalties or any other costs associated with the proceeding will be material. The lawsuit is stayed while the consent decree is finalized.

The Company is seeking insurance coverage for this release and for the ultimate costs for remediation and third-party property damage claims. On July 10, 2008, the Company filed a lawsuit in the United States District Court for the District of Kansas against certain of the Company's environmental insurance carriers requesting insurance coverage indemnification for the June/July 2007 flood and crude oil discharge losses. Each insurer reserved its rights under various policy exclusions and limitations and cited potential coverage defenses. Although the Court has now issued summary judgment opinions that eliminate the majority of the insurance defendants' reservations and defenses, the Company cannot 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 Company has received \$25 million of insurance proceeds under its primary environmental liability insurance policy which constitutes full payment to the Company of the primary pollution liability policy limit.

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(15) Commitments and Contingencies (Continued)**

The lawsuit with the insurance carriers under the environmental policies remains the only unsettled lawsuit with the insurance carriers related to these events.

***Environmental, Health, and Safety ("EHS") Matters***

CRRM, Coffeyville Resources Crude Transportation, LLC ("CRCT"), Coffeyville Resources Terminal, LLC ("CRT"), and Wynnewood Refining Company, LLC ("WRC"), all of which are wholly-owned subsidiaries of CVR, and CRNF are 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.

CRRM, CRNF, CRCT, WRC and CRT own and/or operate manufacturing and ancillary operations at various locations directly related to petroleum refining and distribution and nitrogen fertilizer manufacturing. Therefore, CRRM, CRNF, CRCT, WRC and CRT have exposure to potential EHS liabilities related to past and present EHS conditions at these locations. Under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), the Resource Conservation and Recovery Act ("RCRA"), and related state laws, certain persons may be liable for the release or threatened release of hazardous substances. These persons include the current owner or operator of property where a release or threatened release occurred, any persons who owned or operated the property when the release occurred, and any persons who disposed of, or arranged for the transportation or disposal of, hazardous substances at a contaminated property. Liability under CERCLA is strict, and under certain circumstances, joint and several, so that any responsible party may be held liable for the entire cost of investigating and remediating the release of hazardous substances. Similarly, the OPA generally subjects owners and operators of facilities to strict, joint and several liability for all containment and cleanup costs, natural resource damages, and potential governmental oversight costs arising from oil spills into the waters of the United States.

CRRM and CRT have agreed to perform corrective actions at the Coffeyville, Kansas refinery and the now-closed Phillipsburg, Kansas terminal facility, pursuant to Administrative Orders on Consent issued under RCRA to address historical contamination by the prior owners (RCRA Docket No. VII-94-H-0020 and Docket No. VII-95-H-011, respectively). As of September 30, 2012 and December 31, 2011, environmental accruals of approximately \$1.6 million and \$1.9 million, respectively, were reflected in the Condensed Consolidated Balance Sheets for probable and estimated costs for remediation of environmental contamination under the RCRA Administrative Orders, for which approximately \$0.3 million and \$0.5 million, respectively, are included in other current liabilities. The Company's accruals were determined based on an estimate of payment costs through 2031, for which the scope of remediation was arranged with the EPA, and were discounted at the appropriate risk free rates at September 30, 2012 and December 31, 2011, respectively. The accruals include estimated closure and post-closure costs of approximately \$0.9 million and \$0.9 million for two landfills at

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2012****(unaudited)****(15) Commitments and Contingencies (Continued)**

September 30, 2012 and December 31, 2011, respectively. The estimated future payments for these required obligations are as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
	<b>(in thousands)</b>
Three months ending December 31, 2012	\$ 147
2013	200
2014	162
2015	162
2016	105
Thereafter	1,055
<b>Undiscounted total</b>	<b>1,831</b>
Less amounts representing interest at 1.59%	193
<b>Accrued environmental liabilities at September 30, 2012</b>	<b>\$ 1,638</b>

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.

CRRM, CRNF, CRCT, WRC and CRT are subject to extensive and frequently changing federal, state and local, environmental and health and safety laws and regulations governing the emission and release of hazardous substances into the environment, the treatment and discharge of waste water, the storage, handling, use and transportation of petroleum and nitrogen products, and the characteristics and composition of gasoline and diesel fuels. The ultimate impact on the Company's business of complying with evolving laws and regulations is not always clearly known or determinable due in part to the fact that our operations may change over time and certain implementing regulations for laws, such as the federal Clean Air Act, have not yet been finalized, are under governmental or judicial review or are being revised. These laws and regulations could result in increased capital, operating and compliance costs.

In 2007, the EPA promulgated the Mobile Source Air Toxic II ("MSAT II") rule that requires the reduction of benzene in gasoline by 2011. CRRM and WRC are considered to be small refiners under the MSAT II rule and compliance with the rule is extended until 2015 for small refiners. With the change in control by Icahn Enterprises in 2012, the MSATII projects have been accelerated by three months due to the loss of small refiner status. Capital expenditures to comply with the rule are expected to be approximately \$45.0 million for CRRM and \$49.0 million for WRC.

CRRM's refinery is subject to the Renewable Fuel Standard ("RFS") which requires refiners to blend "renewable fuels" in with their transportation fuels or purchase renewable energy credits in lieu of blending. The EPA is required to determine and publish the applicable annual renewable fuel percentage standards for each compliance year by November 30 for the forthcoming year. The percentage standards represent the ratio of renewable fuel volume to gasoline and diesel volume. In 2012, about 9% of all fuel used was required to be "renewable fuel." The EPA has not yet proposed

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(15) Commitments and Contingencies (Continued)**

the renewable fuel percentage standards for 2013. Due to mandates in the RFS requiring increasing volumes of renewable fuels to replace petroleum products in the U.S. motor fuel market, there may be a decrease in demand for petroleum products. In addition, CRRM may be impacted by increased capital expenses and production costs to accommodate mandated renewable fuel volumes to the extent that these increased costs cannot be passed on to the consumers. CRRM's small refiner status under the original RFS expired on December 31, 2010. Beginning on January 1, 2011, CRRM was required to blend renewable fuels into its gasoline and diesel fuel or purchase renewable energy credits, known as Renewable Identification Numbers ("RINs") in lieu of blending. To achieve compliance with the renewable fuel standard for the remainder of 2012, CRRM is able to blend a small amount of ethanol into gasoline sold at its refinery loading rack, but otherwise will have to purchase RINs to comply with the rule. CRRM requested "hardship relief" (an extension of the compliance deadline) from the EPA based on the disproportionate economic impact of the rule on CRRM, but the EPA denied CRRM's request on February 17, 2012.

WRC's refinery is a small refinery under the RFS and has received a two year extension of time to comply. Therefore, WRC will have to begin complying with the RFS beginning in 2013 unless a further extension is requested and granted.

The EPA is expected to propose "Tier 3" gasoline sulfur standards in 2012 or 2013. If the EPA were to propose a standard at the level recently being discussed in the pre-proposal phase by the EPA, CRRM will need to make modifications to its equipment in order to meet the anticipated new standard. It is not anticipated that the Wynnewood refinery would require additional capital to meet the anticipated new standard. The Company does not believe that costs associated with the EPA's proposed Tier 3 rule will be material.

In March 2004, CRRM and CRT entered into a Consent Decree (the "2004 Consent Decree") with the EPA and the Kansas Department of Health and Environment (the "KDHE") to resolve air compliance concerns raised by the EPA and KDHE related to Farmland Industries Inc.'s prior ownership and operation of the Coffeyville crude oil refinery and the now-closed Phillipsburg terminal facilities. Under the 2004 Consent Decree, CRRM agreed to install controls to reduce emissions of sulfur dioxide, nitrogen oxides and particulate matter from its FCCU by January 1, 2011. In addition, pursuant to the 2004 Consent Decree, CRRM and CRT assumed cleanup obligations at the Coffeyville refinery and the now-closed Phillipsburg terminal facilities.

In March 2012, CRRM entered into a "Second Consent Decree" with the EPA, which replaces the 2004 Consent Decree (other than the RCRA provisions) and the First Material Modification. The Second Consent Decree gives CRRM more time to install the FCCU controls from the 2004 Consent Decree and expands the scope of the settlement so that it is now considered a "global settlement" under the EPA's "National Petroleum Refining Initiative." Under the National Petroleum Refining Initiative, the EPA identified industry-wide noncompliance with four "marquee" issues under the Clean Air Act: New Source Review, Flaring, Leak Detection and Repair, and Benzene Waste Operations NESHAP. The National Petroleum Refining Initiative has resulted in most U.S. refineries (representing more than 90% of the US refining capacity) entering into consent decrees imposing civil penalties and requiring the installation of pollution control equipment and enhanced operating procedures. Under



Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(15) Commitments and Contingencies (Continued)**

the Second Consent Decree, the Company was required to pay a civil penalty of approximately \$0.7 million and complete the installation of FCCU controls required under the 2004 Consent Decree, the remaining costs of which are expected to be approximately \$49.0 million, of which approximately \$47.0 million is expected to be capital expenditures and complete a voluntary environmental project that will reduce air emissions and conserve water at an estimated cost of approximately \$1.2 million. The incremental capital expenditures associated with the Second Consent Decree will not be material and will be limited primarily to the retrofit and replacement of heaters and boilers over a five to seven year timeframe. The Second Consent Decree was entered by the U.S. District Court for the District of Kansas on April 19, 2012.

WRC's refinery has not entered into a global settlement with the EPA and the Oklahoma Department of Environmental Quality (the "ODEQ") under the National Petroleum Refining Initiative, although it had discussions with the EPA and the ODEQ about doing so. Instead, WRC entered into a Consent Order with the ODEQ in August 2011 (the "Wynnewood Consent Order"). The Wynnewood Consent Order addresses some, but not all, of the traditional marquee issues under the National Petroleum Refining Initiative and addresses certain historic Clean Air Act compliance issues that are generally beyond the scope of a traditional global settlement. Under the Wynnewood Consent Order, WRC paid a civil penalty of \$950,000, and agreed to install certain controls, enhance certain compliance programs, and undertake additional testing and auditing. The costs of complying with the Wynnewood Consent Order, other than costs associated with a planned turnaround, are not expected to be material. In consideration for entering into the Wynnewood Consent Order, WRC received a release from liability from ODEQ for matters described in the ODEQ order. The EPA may later request that WRC enter into a global settlement which, if WRC agreed to do so, would necessitate the payment of a civil penalty and the installation of additional controls.

On February 24, 2010, CRRM received a letter from the DOJ on behalf of the EPA seeking an approximately \$0.9 million civil penalty related to alleged late and incomplete reporting of air releases in violation of the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") and the Emergency Planning and Community Right-to-Know Act ("EPCRA"). The Company reached an agreement with EPA to resolve these claims. The resolution was included in the Second Consent Decree described above pursuant to which the Company has agreed to pay an immaterial civil penalty.

The EPA has investigated CRRM's operation for compliance with the Clean Air Act's RMP. On September 23, 2011, the DOJ, acting on behalf of the EPA and the United States Coast Guard, filed suit against CRRM in the United States District Court for the District of Kansas (in addition to the matters described above, see "Flood, Crude Oil Discharge and Insurance") seeking recovery from CRRM related to alleged non-compliance with the RMP. The Company has reached an agreement to settle the claims. Civil penalties associated with the proceeding will exceed \$100,000; however, the Company does not anticipate that civil penalties or any other costs associated with the settlement will be material. The lawsuit is stayed while the parties attempt to finalize and file the consent decree.

From time to time, the EPA has conducted inspections and issued information requests to CRNF with respect to the Company's compliance with the RMP and the release reporting requirements under

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(15) Commitments and Contingencies (Continued)**

CERCLA and the EPCRA. These previous investigations have resulted in the issuance of preliminary findings regarding CRNF's compliance status. In the fourth quarter of 2010, following CRNF's reported release of ammonia from its cooling water system and the rupture of its UAN vessel (which released ammonia and other regulated substances), the EPA conducted its most recent inspection and issued an additional request for information to CRNF. The EPA has not made any formal claims against the Company and the Company has not accrued for any liability associated with the investigations or releases.

WRC has entered into a series of Clean Water Act consent orders with ODEQ. The latest Consent Order (the "CWA Consent Order"), which supersedes other consent orders, became effective in September 2011. The CWA Consent Order addresses alleged noncompliance by WRC with its Oklahoma Pollutant Discharge Elimination System permit limits. The CWA Consent Order requires WRC to take corrective action steps, including undertaking studies to determine whether the Wynnewood refinery's wastewater treatment plant capacity is sufficient. The Wynnewood refinery may need to install additional controls or make operational changes to satisfy the requirements of the CWA Consent Order. The cost of additional controls, if any, cannot be predicted at this time. However, based on our experience with wastewater treatment and controls, we do not believe that the costs of the potential corrective actions would be material.

Environmental expenditures are capitalized when such expenditures are expected to result in future economic benefits. For the three months ended September 30, 2012 and 2011, capital expenditures were approximately \$7.7 million and \$1.1 million, respectively, and were incurred to improve the environmental compliance and efficiency of the operations. For the nine months ended September 30, 2012 and 2011, capital expenditures were approximately \$18.7 million and \$3.6 million, respectively, and were incurred to improve the environmental compliance and efficiency of the operations.

CRRM, CRNF, CRCT, WRC and CRT each believe 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 business, financial condition, or results of operations.

***Wynnewood Refinery Incident***

On September 28, 2012, the Wynnewood refinery experienced an explosion in a boiler unit that had been temporarily shut down as part of the turnaround process. Two employees were fatally injured. Damage at the refinery was limited to the boiler; process units and other areas of the facility were unaffected. Additionally, there has been no evidence of environmental impact. The refinery was shut down for turnaround maintenance at the time of the incident. The Company immediately launched an internal investigation of the incident and continues to cooperate with U.S. Occupational Health and Safety Administration ("OSHA") and Oklahoma Department of Labor ("ODL") investigations.

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

**(16) Fair Value Measurements**

In accordance with ASC Topic 820 *Fair Value Measurements and Disclosures* ("ASC 820"), the Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

ASC 820 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

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

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

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

The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, as of September 30, 2012 and December 31, 2011:

Location and Description	September 30, 2012			Total
	Level 1	Level 2	Level 3	
	(in thousands)			
Cash equivalents	\$ 173,844	\$	\$	\$ 173,844
Other current assets (marketable securities)	36			36
Other current assets (other derivative agreements)				
Other long-term assets (other derivative agreements)				
<b>Total Assets</b>	<b>\$ 173,880</b>	<b>\$</b>	<b>\$</b>	<b>\$ 173,880</b>
Other current liabilities (other derivative agreements)		(107,028)		(107,028)
Other current liabilities (interest rate swap)		(828)		(828)
Other long-term liabilities (other derivative agreements)		(8,733)		(8,733)
Other long-term liabilities (interest rate swap)		(2,186)		(2,186)
<b>Total Liabilities</b>	<b>\$</b>	<b>\$ (118,775)</b>	<b>\$</b>	<b>\$ (118,775)</b>

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2012****(unaudited)****(16) Fair Value Measurements (Continued)**

<u>Location and Description</u>	December 31, 2011			Total
	Level 1	Level 2	Level 3	
	(in thousands)			
Cash equivalents	\$ 187,327	\$	\$	\$ 187,327
Other current assets (marketable securities)	25			25
Other current assets (other derivative agreements)		63,051		63,051
Other long-term assets (other derivative agreements)		18,831		18,831
<b>Total Assets</b>	<b>\$ 187,352</b>	<b>\$ 81,882</b>	<b>\$</b>	<b>\$ 269,234</b>
Other current liabilities (interest rate swap)		(905)		(905)
Other long-term liabilities (interest rate swap)		(1,483)		(1,483)
<b>Total Liabilities</b>	<b>\$</b>	<b>\$ (2,388)</b>	<b>\$</b>	<b>\$ (2,388)</b>

As of September 30, 2012 and December 31, 2011, the only financial assets and liabilities that are measured at fair value on a recurring basis are the Company's cash equivalents, available-for-sale marketable securities and derivative instruments. Additionally, the fair value of the Company's Notes is disclosed in Note 13 ("Long-Term Debt"). The Company's commodity derivative contracts are valued using broker quoted market prices of similar commodity contracts using Level 2 inputs. The Partnership has an interest rate swap that is measured at fair value on a recurring basis using Level 2 inputs. The fair value of these interest rate swap instruments are based on discounted cash flow models that incorporate the cash flows of the derivatives, net, as well as the current LIBOR rate and a forward LIBOR curve, along with other observable market inputs. The Company had no transfers of assets or liabilities between any of the above levels during the nine months ended September 30, 2012.

The Company's investments in marketable securities are classified as available-for-sale, and as a result, are reported at fair market value using quoted market prices.

**(17) Derivative Financial Instruments**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Realized gain (loss) on derivative agreements	\$ (53,272)	\$ 66	\$ (80,426)	\$ (18,298)
Unrealized (loss) on derivative agreements	(115,699)	(9,991)	(196,980)	(6,801)
<b>Total gain (loss) on derivatives, net</b>	<b>\$ (168,971)</b>	<b>\$ (9,925)</b>	<b>\$ (277,406)</b>	<b>\$ (25,099)</b>

CVR is subject to price fluctuations caused by supply conditions, weather, economic conditions, interest rate fluctuations and other factors. To manage price risk on crude oil and other inventories and to fix margins on certain future production, the Company from time to time enters into various commodity derivative transactions.



Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(17) Derivative Financial Instruments (Continued)**

CVR has adopted accounting standards which impose 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 and certain over-the-counter forward swap agreements, which it believes provide an economic hedge on future transactions, but such instruments are not designated as hedges for GAAP purposes. Gains or losses related to the change in fair value and periodic settlements of these derivative instruments are classified as gain (loss) on derivatives, net in the Condensed Consolidated Statements of Operations.

CVR maintains a margin account to facilitate other commodity derivative activities. A portion of this account may include funds available for withdrawal. These funds are included in cash and cash equivalents within the Condensed Consolidated Balance Sheets. The maintenance margin balance is included within other current assets within the Condensed Consolidated Balance Sheets. Dependent upon the position of the open commodity derivatives, the amounts are accounted for as an other current asset or an other current liability within the Condensed Consolidated Balance Sheets. From time to time, CVR may be required to deposit additional funds into this margin account. The fair value of the open commodity positions as of September 30, 2012 was a net loss of \$0.1 million included in accrued liabilities. For the three months ended September 30, 2012, the Company recognized a realized loss of \$8.0 million and an unrealized gain of \$0.9 million which is recorded in loss on derivatives, net in the Condensed Consolidated Statement of Operations. For the nine months ended September 30, 2012, the Company recognized a realized loss of \$10.1 million and an unrealized loss of \$0.8 million which is recorded in loss on derivatives, net in the Condensed Consolidated Statement of Operations.

***Commodity Swap***

Beginning September 2011, the Company entered into several commodity swap contracts with effective periods beginning in January 2012. The physical volumes are not exchanged and these contracts are net settled with cash. The contract fair value of the commodity swaps is reflected on the Condensed Consolidated Balance Sheets with changes in fair value currently recognized in the Condensed Consolidated Statements of Operations. Quoted prices for similar assets or liabilities in active markets (Level 2) are considered to determine the fair values for the purpose of marking to market the hedging instruments at each period end. At September 30, 2012, the Company had open commodity hedging instruments consisting of 26.3 million barrels of crack spreads primarily to fix the margin on a portion of its future gasoline and distillate production. The fair value of the outstanding contracts at September 30, 2012 was a net loss of \$115.6 million which was comprised of \$106.9 million included in current liabilities and \$8.7 million included in long-term liabilities. For the three months ended September 30, 2012, the Company recognized a realized loss of \$45.3 million and an unrealized loss of \$116.5 million which are recorded in loss on derivatives, net in the Condensed Consolidated Statements of Operations. For the nine months ended September 30, 2012, the Company recognized a realized loss of \$70.3 million and an unrealized loss of \$196.1 million which are recorded in loss on derivatives, net in the Condensed Consolidated Statements of Operations.

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(17) Derivative Financial Instruments (Continued)**

***Partnership Interest Rate Swap***

On June 30 and July 1, 2011, CRNF entered into two floating-to-fixed interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of its \$125.0 million floating rate term debt which matures in April 2016. The aggregate notional amount covered under these agreements totals \$62.5 million (split evenly between the two agreement dates) and commenced on August 12, 2011 and expires on February 12, 2016. Under the terms of the interest rate swap agreement entered into on June 30, 2011, CRNF will receive a floating rate based on three month LIBOR and pay a fixed rate of 1.94%. Under the terms of the interest rate swap agreement entered into on July 1, 2011, CRNF will receive a floating rate based on three month LIBOR and pay a fixed rate of 1.975%. Both swap agreements are settled every 90 days. The effect of these swap agreements is to lock in a fixed rate of interest of approximately 1.96% plus the applicable margin paid to lenders over three month LIBOR as governed by the CRNF credit agreement. At September 30, 2012, the effective rate was approximately 4.59%. The agreements were designated as cash flow hedges at inception and accordingly, the effective portion of the gain or loss on the swap is reported as a component of accumulated other comprehensive income (loss) ("AOCI"), and will be reclassified into interest expense when the interest rate swap transaction affects earnings. The ineffective portion of the gain or loss will be recognized immediately in current interest expense on the Condensed Consolidated Statement of Operations. The realized loss on the interest rate swap re-classified from AOCI into interest expense was \$0.2 million and \$0.1 million for the three months ended September 30, 2012 and 2011, respectively. The realized loss on the interest rate swap re-classified from AOCI into interest expense was \$0.7 million and \$0.1 million for the nine months ended September 30, 2012 and 2011, respectively.

**(18) Related Party Transactions**

On May 7, 2012, Carl C. Icahn and certain of his affiliates (collectively, "Icahn") announced that Icahn had acquired control of CVR pursuant to a tender offer to purchase all of the issued and outstanding shares of the Company's common stock. As of September 30, 2012, Icahn owned approximately 82% of all common shares outstanding.

Until February 2011, the Goldman Sachs Funds and Kelso Funds owned approximately 40% of CVR. On February 8, 2011, GS and Kelso completed a registered public offering, whereby GS sold its remaining ownership interest in CVR and Kelso substantially reduced its interest in the Company. On May 26, 2011, Kelso completed a registered public offering in which Kelso sold its remaining ownership interest in CVR. As a result of these sales, the Goldman Sachs Funds and Kelso Funds are no longer stockholders of the Company.

***Lease***

Since March 2009, the Company, through the Partnership, has leased 200 railcars from American Railcar Leasing LLC, a company controlled by Mr. Carl Icahn, the Company's majority stockholder. The agreement is scheduled to expire on March 31, 2014. For the three and nine months ended September 30, 2012, \$0.3 million and \$0.8 million, respectively, of rent expense was recorded related to

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(18) Related Party Transactions (Continued)**

this agreement and is included in cost of product sold (exclusive of depreciation and amortization) in the Condensed Consolidated Statements of Operations.

***Tax Allocation Agreement***

On May 19, 2012, CVR became a member of the consolidated federal tax group of American Entertainment Properties Corporation ("AEPC"), a wholly-owned subsidiary of Icahn Enterprises, and subsequently entered into a tax allocation agreement with AEPC (the "Tax Allocation Agreement"). The Tax Allocation Agreement provides that AEPC will pay all consolidated federal income taxes on behalf of the consolidated tax group. CVR is required to make payments to AEPC in an amount equal to the tax liability, if any, that it would have paid if it were to file as a consolidated group separate and apart from AEPC.

As of September 30, 2012, the Company owes approximately \$44.5 million for federal income taxes due to AEPC under the Tax Allocation Agreement. During the quarter ended September 30, 2012, the Company paid \$65.1 million to AEPC under the Tax Allocation Agreement.

***Icahn Sourcing***

Icahn Sourcing, LLC ("Icahn Sourcing") is an entity formed and controlled by Carl C. Icahn in order to maximize the potential buying power of a group of entities with which Mr. Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property. CVR Energy is a member of the buying group and, as such, is afforded the opportunity to purchase goods, services and property from vendors with whom Icahn Sourcing has negotiated rates and terms. Icahn Sourcing does not guarantee that CVR Energy will purchase any goods, services or property from any such vendors and CVR Energy is under no obligation to do so. CVR Energy does not pay Icahn Sourcing any fees or other amounts with respect to the buying group arrangement. CVR may purchase a variety of goods and services as members of the buying group at prices and terms that CVR believes would be more favorable than those which could be achieved on a stand-alone basis.

***Financing and Other***

In connection with the Partnership IPO, an affiliate of GS received an underwriting fee of approximately \$5.7 million for its role as a joint book-running manager. In April 2011, CRNF entered into a credit facility as discussed further in Note 13 ("Long-Term Debt") whereby an affiliate of GS was paid fees and expenses of approximately \$2.0 million.

For the three and nine months ended September 30, 2011, the Company recognized approximately \$0 and \$0.5 million, respectively, in expenses for the benefit of GS, Kelso, the president and chief executive officer of CVR, in connection with CVR's Registration Rights Agreement. These amounts included registration and filing fees, printing fees, external accounting fees and external legal fees.



Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(19) Business Segments**

The Company measures segment profit as operating income for Petroleum and Nitrogen Fertilizer, CVR's two reporting segments, based on the definitions provided in ASC Topic 280 *Segment Reporting*. All operations of the segments are located within the United States.

***Petroleum***

Principal products of the Petroleum Segment are refined fuels, liquefied petroleum gas, asphalts, and petroleum refining by-products, including pet coke. The Petroleum Segment's Coffeyville refinery sells pet coke to the Partnership for use in the manufacture of nitrogen fertilizer at the adjacent nitrogen fertilizer plant. For the Petroleum Segment, 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 pet coke supply agreement that became effective October 24, 2007, is based on the lesser of a pet coke price derived from the price received by the Nitrogen Fertilizer Segment for UAN (subject to a UAN based price ceiling and floor) and a pet coke price index for pet coke. The intercompany transactions are eliminated in the Other Segment. Intercompany sales included in petroleum net sales were approximately \$2.4 million and \$3.9 million for the three months ended September 30, 2012 and 2011, respectively. Intercompany sales included in petroleum net sales were approximately \$7.3 million and \$8.8 million for the nine months ended September 30, 2012 and 2011, respectively.

The Petroleum Segment recorded intercompany cost of product sold (exclusive of depreciation and amortization) for the hydrogen purchases (sales) described below under "Nitrogen Fertilizer" for the three months ended September 30, 2012 and 2011 of approximately \$0.2 million and \$5.5 million, respectively. For the nine months ended September 30, 2012 and 2011, the Petroleum Segment recorded intercompany cost of product sold (exclusive of depreciation and amortization) for the hydrogen purchases (sales) of approximately \$5.8 million and \$10.8 million, 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 pet coke transfer described above was approximately \$2.5 million and \$3.4 million for the three months ended September 30, 2012 and 2011, respectively. Intercompany cost of product sold (exclusive of depreciation and amortization) for the pet coke transfer described above was approximately \$7.8 million and \$7.0 million for the nine months ended September 30, 2012 and 2011, respectively.

Pursuant to the feedstock agreement, the Coffeyville refinery and nitrogen fertilizer plant have the right to transfer excess hydrogen (hydrogen determined not to be needed to meet the current anticipated operational requirements of the facility transferring the hydrogen) to one another. Sales of hydrogen to the Petroleum Segment have been reflected as net sales for the Nitrogen Fertilizer Segment. Receipts of hydrogen from the Petroleum Segment have been reflected in cost of product sold (exclusive of depreciation and amortization) for the Nitrogen Fertilizer Segment. For the three months ended September 30, 2012 and 2011, the net sales generated from intercompany hydrogen sales

Table of Contents

## CVR ENERGY, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

**(19) Business Segments (Continued)**

were \$0.3 million and \$5.7 million, respectively. For the nine months ended September 30, 2012 and 2011, the net sales generated from intercompany hydrogen sales were \$6.0 million and \$11.8 million, respectively. For the three months ended September 30, 2012 and 2011, the Nitrogen Fertilizer Segment also recognized approximately \$0.1 million and \$0.3 million, respectively, of cost of product sold related to the transfer of excess hydrogen. For the nine months ended September 30, 2012 and 2011, the Nitrogen Fertilizer Segment also recognized approximately \$0.2 million and \$1.0 million, respectively, of cost of product sold related to the transfer of excess hydrogen. As these intercompany sales and cost of product sold are eliminated, there is no financial statement impact on the condensed consolidated financial statements.

**Other Segment**

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

The following table summarizes certain operating results and capital expenditures information by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Net sales				
Petroleum	\$ 2,337,354	\$ 1,284,407	\$ 6,465,378	\$ 3,772,348
Nitrogen Fertilizer	75,013	77,203	234,720	215,253
Intersegment elimination	(2,743)	(9,646)	(13,525)	(20,656)
<b>Total</b>	<b>\$ 2,409,624</b>	<b>\$ 1,351,964</b>	<b>\$ 6,686,573</b>	<b>\$ 3,966,945</b>
Cost of product sold (exclusive of depreciation and amortization)				
Petroleum	\$ 1,694,019	\$ 1,024,509	\$ 5,190,839	\$ 3,077,555
Nitrogen Fertilizer	11,297	10,901	34,620	28,138
Intersegment elimination	(2,864)	(9,370)	(13,642)	(19,456)
<b>Total</b>	<b>\$ 1,702,452</b>	<b>\$ 1,026,040</b>	<b>\$ 5,211,817</b>	<b>\$ 3,086,237</b>
Direct operating expenses (exclusive of depreciation and amortization)				
Petroleum	\$ 88,890	\$ 54,510	\$ 253,176	\$ 143,974
Nitrogen Fertilizer	21,063	20,083	66,424	65,373
Other	(24)	22	(58)	(91)
<b>Total</b>	<b>\$ 109,929</b>	<b>\$ 74,615</b>	<b>\$ 319,542</b>	<b>\$ 209,256</b>
Insurance recovery business interruption				
Petroleum	\$	\$	\$	\$
Nitrogen Fertilizer		(490)		(3,360)
Other				

Edgar Filing: CVR ENERGY INC - Form 10-Q

Total	\$	\$	(490)	\$	\$	(3,360)
-------	----	----	-------	----	----	---------

Table of Contents**CVR ENERGY, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2012****(unaudited)****(19) Business Segments (Continued)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
<b>Depreciation and amortization</b>				
Petroleum	\$ 27,458	\$ 16,990	\$ 80,355	\$ 50,872
Nitrogen Fertilizer	5,230	4,663	15,826	13,948
Other	421	372	1,230	1,259
<b>Total</b>	<b>\$ 33,109</b>	<b>\$ 22,025</b>	<b>\$ 97,411</b>	<b>\$ 66,079</b>
<b>Operating income (loss)</b>				
Petroleum	\$ 507,470	\$ 179,815	\$ 891,222	\$ 469,042
Nitrogen Fertilizer	32,347	37,514	99,820	93,626
Other	(6,073)	(5,139)	(81,018)	(22,952)
<b>Total</b>	<b>\$ 533,744</b>	<b>\$ 212,190</b>	<b>\$ 910,024</b>	<b>\$ 539,716</b>
<b>Capital expenditures</b>				
Petroleum	\$ 20,211	\$ 20,216	\$ 82,604	\$ 33,430
Nitrogen fertilizer	18,201	4,492	57,419	10,539
Other	1,482	944	5,030	2,662
<b>Total</b>	<b>\$ 39,894</b>	<b>\$ 25,652</b>	<b>\$ 145,053</b>	<b>\$ 46,631</b>

	As of September 30, 2012	As of December 31, 2011
<b>Total assets</b>		
Petroleum	\$ 2,188,950	\$ 2,322,148
Nitrogen Fertilizer	653,242	659,309
Other	810,185	137,834
<b>Total</b>	<b>\$ 3,652,377</b>	<b>\$ 3,119,291</b>
<b>Goodwill</b>		
Petroleum	\$	\$
Nitrogen Fertilizer	40,969	40,969
Other		
<b>Total</b>	<b>\$ 40,969</b>	<b>\$ 40,969</b>

**(20) Subsequent Events**

*Formation and Initial Public Offering of CVR Refining, LP*

In contemplation of an initial public offering, CRLLC has formed CVR Refining Holdings, LLC, which in turn has formed CVR Refining GP, LLC. CVR Refining Holdings, LLC and CVR Refining GP, LLC have formed CVR Refining, LP which has issued them a 100% limited partnership interest and a non-economic general partner interest, respectively. CVR Refining Holdings, LLC has

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(20) Subsequent Events (Continued)**

formed CVR Refining, LLC and CRLLC contributed its petroleum and logistics subsidiaries, as well as its equity interests in Coffeyville Finance Inc., to CVR Refining, LLC in October 2012.

On October 1, 2012, CVR Refining, LP (the "Refining Partnership") filed a registration statement on Form S-1 to effect an initial public offering of its common units representing limited partner interests (the "Offering"). The number of common units to be sold in the Offering has not yet been determined. The Offering is subject to numerous conditions including, without limitation, market conditions, pricing, regulatory approvals, including clearance from the SEC, compliance with contractual obligations, and reaching agreements with the underwriters and lenders.

Upon consummation of the Offering, CVR will indirectly own the Refining Partnership's general partner and limited partnership interests in the form of common units. There can be no assurance that any such offering will be consummated on the terms described in the registration statement or at all. Following the Offering, the Refining Partnership will have two types of partnership interests outstanding:

common units representing limited partner interests, a portion of which the Refining Partnership will have sold in the Offering; and

a general partner interest, which is not entitled to any distributions, and which will be held by the Refining Partnership's general partner.

Following the Offering, the Refining Partnership expects to make quarterly cash distributions to unitholders. The board of directors of the general partner will adopt a policy, which it may change at any time, whereby distributions for each quarter will be in an amount equal to available cash generated in such quarter. Available cash will be determined by the board of directors of the general partner.

The general partner will manage and operate the Refining Partnership. Common unitholders will only have limited voting rights on matters affecting the Refining Partnership's business. Common unitholders will have no right to elect the general partner or its directors on an annual or other continuing basis.

***Issuance of Second Lien Senior Secured Notes and Tender Offer***

On October 23, 2012, CVR Refining LLC ("Refining LLC") and its wholly-owned subsidiary, Coffeyville Finance Inc. (the "New Issuers"), completed a private offering of \$500.0 million in aggregate principal amount of 6.500% Second Lien Senior Secured Notes due 2022 (the "2022 Notes"). The 2022 Notes were issued at par. Refining LLC received approximately \$492.5 million of cash proceeds, net of the underwriting fees, but before deducting other third-party fees and expenses associated with the offering. The 2022 Notes are secured by substantially the same assets that secure the outstanding Second Lien Notes, subject to exceptions, until such time that the outstanding Second Lien Notes have been discharged in full.

A portion of the net proceeds from the offering approximating \$348.1 million were used to purchase approximately \$323.0 million of the First Lien Notes pursuant to a tender offer and to settle accrued interest of approximately \$1.8 million through October 23, 2012 and to pay related fees and

Table of Contents

**CVR ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**September 30, 2012**

**(unaudited)**

**(20) Subsequent Events (Continued)**

expenses. Tendered notes were purchased at a premium of approximately \$23.3 million in aggregate amount. CRLLC intends to use the remaining proceeds from the offering to either (1) purchase the remaining \$124.1 million of existing First Lien Notes, if any, tendered in the tender offer by November 5, 2012 or (2) redeem any remaining non-tendered First Lien Notes on November 23, 2012 pursuant to a notice of redemption issued on October 23, 2012. Any remaining proceeds will be used for general corporate purposes.

As a result of these transactions, a write-off of previously deferred financing charges estimated at approximately \$8.4 million will be recorded in the fourth quarter of 2012. Additionally, the tendered and redeemed First Lien Notes have an unamortized original issuance premium of approximately \$6.6 million, which will reduce the loss on extinguishment of debt recorded in the fourth quarter. The total premiums expected to be paid in conjunction with both the tender offer and the redemption of the First Lien Notes are anticipated to be approximately \$31.7 million. This will be recorded as a loss on extinguishment of debt in the fourth quarter of 2012.

The debt issuance costs of the 2022 Notes will be amortized over the term of the 2022 Notes as interest expense using the effective-interest amortization method. The 2022 Notes mature on November 1, 2022, unless earlier redeemed or repurchased by the New Issuers. Interest is payable on the 2022 Notes semi-annually on May 1 and November 1 of each year, commencing on May 1, 2013.

***Partnership Distribution***

On October 26, 2012, the Board of Directors of the Partnership's general partner declared a cash distribution for the third quarter of 2012 to the Partnership's unitholders of \$0.496 per common unit. The cash distribution will be paid on November 14, 2012 to unitholders of record at the close of business on November 7, 2012.

***Wynnewood Refinery Major Scheduled Turnaround***

The Wynnewood refinery began turnaround maintenance in the fourth quarter of 2012. The Company expects to incur approximately \$100.0 million of expenses during 2012 related to the Wynnewood refinery's turnaround. The Wynnewood refinery has incurred \$13.4 million of turnaround costs in the nine months ended September 30, 2012. It is anticipated that the downtime associated with the Wynnewood refinery turnaround will approximate 50 to 55 days and will significantly impact the revenue for the fourth quarter of 2012.

***Nitrogen Fertilizer Major Scheduled Turnaround***

The nitrogen fertilizer facility's previously scheduled major turnaround began on October 3, 2012 with ammonia production resuming on October 23, 2012 and UAN production resuming on October 25, 2012. Operating income is impacted negatively by both the expenses associated with the scheduled turnaround and the lost revenue the Partnership would have generated had the nitrogen fertilizer plant not been shut down. Turnaround expenses are recognized as incurred as a component of direct operating expenses. As of September 30, 2012, \$0.2 million of turnaround expenses had been incurred. It is estimated that approximately \$4.7 million of expenses were incurred in October 2012 associated with the turnaround.

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and related notes and with the statistical information and financial data appearing in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, as well as our Annual Report on Form 10-K for the year ended December 31, 2011. Results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of results to be attained for any other period.

**Forward-Looking Statements**

This Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains "forward-looking statements" as defined by the Securities and Exchange Commission (the "SEC"). Such statements are those concerning contemplated transactions and strategic plans, expectations and objectives for future operations. These include, without limitation:

statements, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future;

statements relating to future financial performance, future capital sources and other matters; and

any other statements preceded by, followed by or that include the words "anticipates," "believes," "expects," "plans," "intends," "estimates," "projects," "could," "should," "may," or similar expressions.

Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. These statements are based on assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate in the circumstances. Such statements are subject to a number of risks and uncertainties, many of which are beyond our control. You are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements as a result of various factors, including but not limited to those set forth in the summary risks noted below and under "Risk Factors" attached hereto as Exhibit 99.1:

change in control;

volatile margins in the refining industry;

exposure to the risks associated with volatile crude oil prices;

the availability of adequate cash and other sources of liquidity for our capital needs;

our ability to forecast our future financial condition or results of operations and our future revenues and expenses;

disruption of our ability to obtain an adequate supply of crude oil;

interruption of the pipelines supplying feedstock and in the distribution of our products;



competition in the petroleum and nitrogen fertilizer businesses;

capital expenditures and potential liabilities arising from environmental laws and regulations;

Table of Contents

changes in our credit profile;

the cyclical nature of the nitrogen fertilizer business;

the seasonal nature of our business;

the supply and price levels of essential raw materials;

the risk of a material decline in production at our refineries and nitrogen fertilizer plant;

potential operating hazards from accidents, fire, severe weather, floods or other natural disasters;

the risk associated with governmental policies affecting the agricultural industry;

the volatile nature of ammonia, potential liability for accidents involving ammonia that cause interruption to our businesses, severe damage to property and/or injury to the environment and human health and potential increased costs relating to the transport of ammonia;

the dependence of the nitrogen fertilizer operations on a few third-party suppliers, including providers of transportation services and equipment;

new regulations concerning the transportation of hazardous chemicals, risks of terrorism and the security of chemical manufacturing facilities;

our dependence on significant customers;

the potential loss of the nitrogen fertilizer business' transportation cost advantage over its competitors;

our potential inability to successfully implement our business strategies, including the completion of significant capital programs;

our ability to continue to license the technology used in our operations;

existing and proposed environmental laws and regulations, including those relating to climate change, alternative energy or fuel sources, and existing and future regulations related to the end-use and application of fertilizers;

refinery and nitrogen fertilizer facility operating hazards and interruptions, including unscheduled maintenance or downtime, and the availability of adequate insurance coverage;

## Edgar Filing: CVR ENERGY INC - Form 10-Q

our significant indebtedness, including restrictions in our debt agreements; and

instability and volatility in the capital and credit markets.

All forward-looking statements contained in this Form 10-Q speak only as of the date of this document. We undertake no obligation to update or revise publicly any forward-looking statements to reflect events or circumstances that occur after the date of this Form 10-Q, or to reflect the occurrence of unanticipated events.

### **Company Overview**

We are an independent petroleum refiner and marketer of high value transportation fuels in the mid-continental United States. In addition, we own the general partner and approximately 70% of the common units of CVR Partners, LP, a publicly-traded limited partnership that is an independent

Table of Contents

producer and marketer of upgraded nitrogen fertilizers in the form of ammonia and urea ammonia nitrate, or UAN.

We operate under two business segments: petroleum and nitrogen fertilizer. Throughout the remainder of the document, our business segments are referred to as our "petroleum business" and our "nitrogen fertilizer business," respectively.

**Petroleum business.** Our petroleum business includes a 115,000 bpd complex full coking medium-sour crude oil refinery in Coffeyville, Kansas and, as of December 15, 2011, a 70,000 bpd crude oil unit refinery in Wynnewood, Oklahoma. In addition, our supporting businesses include (1) a crude oil gathering system with a gathering capacity of approximately 50,000 bpd serving Kansas, Oklahoma, western Missouri, southwestern Nebraska and Texas, (2) a rack marketing division supplying product through tanker trucks directly to customers located in close geographic proximity to Coffeyville, Kansas and Wynnewood, Oklahoma and at throughput terminals on Magellan and NuStar Energy, LP's ("NuStar") refined products distribution systems, (3) a 145,000 bpd pipeline system (supported by approximately 350 miles of Company owned and leased pipeline) that transports crude oil to our Coffeyville refinery from its Broome Station tank farm and associated crude oil storage tanks with a capacity of 1.2 million barrels, (4) crude oil storage tanks with a capacity of 0.5 million barrels in Wynnewood, Oklahoma, (5) an additional 3.3 million barrels of leased storage capacity located in Cushing, Oklahoma and other locations and (6) 1.0 million barrels of company owned crude oil storage in Cushing, Oklahoma.

Our Coffeyville refinery is situated approximately 100 miles northeast of Cushing, Oklahoma, one of the largest crude oil trading and storage hubs in the United States and our Wynnewood refinery is approximately 130 miles southwest of Cushing. Cushing is supplied by numerous pipelines from various locations including Canada. The early June 2012 reversal of the Seaway Pipeline that now flows from Cushing, OK to the U. S. Gulf Coast has eliminated our ability to source foreign waterborne crude oil from around the world, as well as deep water U.S. Gulf of Mexico produced sweet and sour crude oil grades. In addition to rack sales (sales which are made at terminals into third party tanker trucks), we make bulk sales (sales through third party pipelines) into the mid-continent markets via Magellan and into Colorado and other destinations utilizing the product pipeline networks owned by Magellan, Enterprise Products Operating, L.P., and NuStar.

Crude oil is supplied to our Coffeyville refinery through our gathering system and by a Plains pipeline from Cushing, Oklahoma. We maintain capacity on the Spearhead and Keystone pipelines (as discussed more fully in Note 15 to the financial statements) from Canada to Cushing. We also maintain leased storage in Cushing to facilitate optimal crude oil purchasing and blending. Our Coffeyville refinery blend consists of a combination of crude oil grades, including domestic grades, various Canadian medium and heavy sour and sweet synthetics. Our Wynnewood refinery is capable of processing a variety of crude oils, including West Texas sour, West Texas Intermediate, sweet and sour Canadian and other U.S. domestically produced crude oils. The access to a variety of crude oils coupled with the complexity of our refineries allows us to purchase crude oil at a discount to WTI. Our consumed crude oil cost discount to WTI for the third quarter of 2012 was \$4.38 per barrel compared to \$2.57 per barrel in the third quarter of 2011.

On July 10, 2012, CVR and the union representing approximately 65% of the employees at our Wynnewood refinery agreed to a new three-year collective bargaining agreement extending to June 2015.

**Nitrogen fertilizer business.** The nitrogen fertilizer business consists of our interest in the Partnership. We own the general partner and approximately 70% of the common units of the Partnership. The nitrogen fertilizer business consists of a nitrogen fertilizer manufacturing facility that is the only operation in North America that utilizes a petroleum coke, or pet coke, gasification process

Table of Contents

to produce nitrogen fertilizer. The facility includes a 1,225 ton-per-day ammonia unit, a 2,025 ton-per-day UAN unit and a gasifier complex having a capacity of 84 million standard cubic feet per day of hydrogen. The gasifier is a dual-train facility, with each gasifier able to function independently of the other, thereby providing redundancy and improving reliability. In 2011, the nitrogen fertilizer business produced 411,189 tons of ammonia, of which approximately 72% was upgraded into 714,130 tons of UAN. For the three and nine months ended September 30, 2012, the nitrogen fertilizer business produced 104,161 and 302,339 tons of ammonia, respectively, of which approximately 72% and 70% was upgraded into 181,861 and 516,465 tons of UAN, respectively.

The Partnership's growth strategy includes expanding production of UAN and acquiring additional infrastructure and production assets. The Partnership is anticipating completion of its UAN expansion project designed to increase the UAN production capacity by 400,000 tons, or approximately 50%, per year by January 1, 2013.

The primary raw material feedstock utilized in the nitrogen fertilizer production process is pet coke, which is produced during the crude oil refining process. In contrast, substantially all of the nitrogen fertilizer business' competitors use natural gas as their primary raw material feedstock. Historically, pet coke has been significantly less expensive than natural gas on a per ton of fertilizer produced basis and pet coke prices have been more stable when compared to natural gas prices. The nitrogen fertilizer business currently purchases most of its pet coke from CVR Energy pursuant to a long-term agreement having an initial term that ends in 2027, subject to renewal. On average, during the past five years, over 70% of the pet coke utilized by the nitrogen fertilizer plant was produced and supplied by CVR Energy's crude oil refinery in Coffeyville.

### **Transaction Agreement**

On April 18, 2012, CVR Energy entered into a Transaction Agreement (the "Transaction Agreement") with IEP Energy LLC (the "Offeror"), a majority owned subsidiary of Icahn Enterprises, L.P. ("Icahn Enterprises") and certain other affiliates of Icahn Enterprises, and Carl C. Icahn (collectively with the Offeror, the "Offeror Parties"). Pursuant to the Transaction Agreement, the Offeror offered (the "Offer") to purchase all of the issued and outstanding shares of CVR Energy's common stock (the "Shares") for a price of \$30 per Share in cash, without interest, less any applicable withholding taxes, plus one non-transferable contingent cash payment ("CCP") right for each Share which represents the contractual right to receive an additional cash payment per share if a definitive agreement for the sale of CVR Energy is executed on or before August 18, 2013 and such transaction closes.

On May 7, 2012, the IEP Parties announced that a majority of CVR's common stock had been acquired through the Offer. As a result of Shares tendered into the Offer during the initial offering period and subsequent additional purchases, the IEP Parties owned approximately 82% of CVR Energy's outstanding common stock as of September 30, 2012.

Pursuant to the Transaction Agreement, for a period of 60 days CVR Energy solicited proposals or offers from third parties to acquire CVR Energy. The 60-day period began on May 24, 2012 and ended on July 23, 2012 without any qualifying offers.

Pursuant to the Transaction Agreement, all employee restricted stock awards ("awards") that vest in 2012 will vest in accordance with the current vesting terms and upon vesting will receive the offer price of \$30 per share in cash plus one CCP. For all such awards that vest in accordance with their terms in 2013, 2014 and 2015, the holders of the awards will receive the lesser of the offer price or the appraised value of the shares at the time of vesting. For awards vesting subsequent to 2012, the awards will be remeasured at each subsequent reporting date until they vest.

Table of Contents

**Nitrogen Partnership Shelf Registration Statement**

On August 29, 2012, the Partnership's registration statement on Form S-3 (initially filed on August 17, 2012), was declared effective by the Securities and Exchange Commission ("SEC") enabling CRLLC to offer and sell from time to time, in one or more public offerings or direct placements, up to 50,920,000 common units.

**Major Influences on Results of Operations**

***Petroleum Business***

Our earnings and cash flows from our petroleum operations are primarily affected by the relationship between refined product prices and the prices for crude oil and other feedstocks. Feedstocks are petroleum products, such as crude oil and natural gas liquids, that are processed and blended into refined products. The cost to acquire feedstocks and the price for which refined products are ultimately sold depend on factors beyond our control, including the supply of and demand for crude oil, as well as gasoline and other refined products which, in turn, depend on, among other factors, changes in domestic and foreign economies, weather conditions, domestic and foreign political affairs, production levels, the availability of imports, the marketing of competitive fuels and the extent of government regulation. Because we apply first-in, first-out ("FIFO") accounting to value our inventory, crude oil price movements may impact net income in the short term because of changes in the value of our unhedged on-hand inventory. The effect of changes in crude oil prices on our results of operations is influenced by the rate at which the prices of refined products adjust to reflect these changes.

Feedstock and refined product prices are also affected by other factors, such as product pipeline capacity, local market conditions and the operating levels of competing refineries. Crude oil costs and the prices of refined products have historically been subject to wide fluctuations. An expansion or upgrade of our competitors' facilities, price volatility, international political and economic developments and other factors beyond our control are likely to continue to play an important role in refining industry economics. These factors can impact, among other things, the level of inventories in the market, resulting in price volatility and a reduction in product margins. Moreover, the refining industry typically experiences seasonal fluctuations in demand for refined products, such as increases in the demand for gasoline during the summer driving season and for home heating oil during the winter, primarily in the Northeast. In addition to current market conditions, there are long-term factors that may impact the demand for refined products. These factors include mandated renewable fuels standards, proposed climate change laws and regulations, and increased mileage standards for vehicles.

In order to assess our operating performance, we compare our net sales, less cost of product sold, or our refining margin, against an industry refining margin benchmark. The industry refining margin benchmark is calculated by assuming that two barrels of benchmark light sweet crude oil is converted into one barrel of conventional gasoline and one barrel of distillate. This benchmark is referred to as the 2-1-1 crack spread. Because we calculate the benchmark margin using the market value of NYMEX gasoline and heating oil against the market value of NYMEX WTI, we refer to the benchmark as the NYMEX 2-1-1 crack spread, or simply, the 2-1-1 crack spread. The 2-1-1 crack spread is expressed in dollars per barrel and is a proxy for the per barrel margin that a sweet crude oil refinery would earn assuming it produced and sold the benchmark production of gasoline and distillate.

Although the 2-1-1 crack spread is a benchmark for our refinery margin, because our refineries have certain feedstock costs and logistical advantages as compared to a benchmark refinery and our product yield is less than total refinery throughput, the crack spread does not account for all the factors that affect refinery margin. Our Coffeyville refinery is able to process a blend of crude oil that includes quantities of heavy and medium sour crude oil that has historically cost less than WTI. We measure the

Table of Contents

cost advantage of our crude oil slate by calculating the spread between the price of our delivered crude oil and the price of WTI. The spread is referred to as our consumed crude oil differential. Our refinery margin can be impacted significantly by the consumed crude oil differential. Our consumed crude oil differential will move directionally with changes in the WTS differential to WTI and the West Canadian Select ("WCS") differential to WTI as both these differentials indicate the relative price of heavier, more sour, slate to WTI. The correlation between our consumed crude oil differential and published differentials will vary depending on the volume of light medium sour crude oil and heavy sour crude oil we purchase as a percent of our total crude oil volume and will correlate more closely with such published differentials the heavier and more sour the crude oil slate.

We produce a high volume of high value products, such as gasoline and distillates. We benefit from the fact that our marketing region consumes more refined products than it produces so that the market prices in our region include the logistics cost for U.S. Gulf Coast refineries to ship into our region. The result of this logistical advantage and the fact that the actual product specifications used to determine the NYMEX 2-1-1 crack spread are different from the actual production in our refineries is that prices we realize are different than those used in determining the 2-1-1 crack spread. The difference between our price and the price used to calculate the 2-1-1 crack spread is referred to as gasoline PADD II, Group 3 vs. NYMEX basis, or gasoline basis, and Ultra-Low Sulfur Diesel PADD II, Group 3 vs. NYMEX basis, or Ultra-Low Sulfur Diesel basis. If both gasoline and Ultra-Low Sulfur Diesel basis are greater than zero, this means that prices in our marketing area exceed those used in the 2-1-1 basis.

Our direct operating expense structure is also important to our profitability. Major direct operating expenses include energy, employee labor, maintenance, contract labor, and environmental compliance. Our predominant variable cost is energy, which is comprised primarily of electrical cost and natural gas. We are therefore sensitive to the movements of natural gas prices. Assuming the same rate of consumption of natural gas for the nine months ended September 30, 2012, a \$1.00 change in natural gas prices would have increased or decreased our natural gas costs by approximately \$5.8 million.

Because petroleum feedstocks and products are essentially commodities, we have no control over the changing market. Therefore, the lower target inventory we are able to maintain significantly reduces the impact of commodity price volatility on our petroleum product inventory position relative to other refiners. This target inventory position is generally not hedged. To the extent our inventory position deviates from the target level, we consider risk mitigation activities usually through the purchase or sale of futures contracts on the NYMEX. Our hedging activities carry customary time, location and product grade basis risks generally associated with hedging activities. Because most of our titled inventory is valued under the FIFO costing method, price fluctuations on our target level of titled inventory have a major effect on our financial results.

Consistent, safe, and reliable operations at our refineries are key to our financial performance and results of operations. Unplanned downtime at our refineries may result in lost margin opportunity, increased maintenance expense and a temporary increase in working capital investment and related inventory position. We seek to mitigate the financial impact of planned downtime, such as major turnaround maintenance, through a diligent planning process that takes into account the margin environment, the availability of resources to perform the needed maintenance, feedstock logistics and other factors. Our refineries generally require a facility turnaround every four to five years. The length of the turnaround is contingent upon the scope of work to be completed. Our Coffeyville refinery completed the first phase of a two phase turnaround during the fourth quarter of 2011. The second phase began and was completed during the first quarter of 2012. The turnaround at the Wynnewood refinery will be completed during the fourth quarter of 2012.

Our Coffeyville refinery experienced an equipment malfunction and small fire in connection with its FCCU on December 28, 2010, which led to reduced crude oil throughput and repair cost approximately \$2.2 million net of insurance receivable for the year ended 2011. We used the resulting

Table of Contents

downtime to perform certain turnaround activities which had otherwise been scheduled for later in 2011, along with opportunistic maintenance, which cost approximately \$4.0 million in total. The refinery returned to full operations on January 26, 2011. This interruption adversely impacted the production of refined products for the petroleum business in the first quarter of 2011. We estimate that approximately 1.9 million barrels of crude oil processing were lost in the first quarter of 2011 due to this incident.

Our Coffeyville refinery also experienced a small fire at its CCR in May 2011, which led to reduced crude oil throughput for the second quarter of 2011. Repair costs, net of the insurance receivable, recorded for the year ended December 31, 2011 approximated \$2.5 million. The interruption adversely impacted the production of refined products for the second quarter of 2011.

On September 28, 2012, our Wynnewood refinery experienced an explosion in a boiler unit that had been temporarily shut down as part of the turnaround process. Two employees were fatally injured. Damage at the refinery was limited to the boiler; process units and other areas of the facility were unaffected and there was no evidence of environmental impacts. The Company immediately launched an internal investigation of the incident and continues to cooperate with the U.S. Occupational Health and Safety Administration ("OSHA") and Oklahoma Department of Labor ("ODL") investigations.

***Nitrogen Fertilizer Business***

In the nitrogen fertilizer business, earnings and cash flows from operations are primarily affected by the relationship between nitrogen fertilizer product prices, on-stream factors and direct operating expenses. Unlike its competitors, the nitrogen fertilizer business does not use natural gas as a feedstock and uses a minimal amount of natural gas as an energy source in its operations. As a result, volatile swings in natural gas prices have a minimal impact on its results of operations. Instead, our adjacent Coffeyville refinery supplies the nitrogen fertilizer business with most of the pet coke feedstock it needs pursuant to a long-term pet coke supply agreement entered into in October 2007. The price at which nitrogen fertilizer products are ultimately sold depends on numerous factors, including the global supply and demand for nitrogen fertilizer products which, in turn, depends on, among other factors, world grain demand and production levels, changes in world population, the cost and availability of fertilizer transportation infrastructure, weather conditions, the availability of imports, and the extent of government intervention in agriculture markets. Nitrogen fertilizer prices are also affected by local factors, including local market conditions and the operating levels of competing facilities. An expansion or upgrade of competitors' facilities, international political and economic developments and other factors are likely to continue to play an important role in nitrogen fertilizer industry economics. These factors can impact, among other things, the level of inventories in the market, resulting in price volatility and a reduction in product margins. Moreover, the industry typically experiences seasonal fluctuations in demand for nitrogen fertilizer products.

In addition, the demand for fertilizers is affected by the aggregate crop planting decisions and fertilizer application rate decisions of individual farmers. Individual farmers make planting decisions based largely on the prospective profitability of a harvest, while the specific varieties and amounts of fertilizer they apply depend on factors like crop prices, their current liquidity, soil conditions, weather patterns and the types of crops planted.

Natural gas is the most significant raw material required in our competitors' production of nitrogen fertilizers. Over the past several years, natural gas prices have experienced high levels of price volatility. This pricing volatility has a direct impact on our competitors' cost of producing nitrogen fertilizer. Over the last year, natural gas prices have significantly decreased.

In order to assess the operating performance of the nitrogen fertilizer business, we calculate plant gate price to determine our operating margin. Plant gate price refers to the unit price of nitrogen fertilizer, in dollars per ton, offered on a delivered basis, excluding shipment costs.



Table of Contents

We and other competitors in the U.S. farm belt share a significant transportation cost advantage when compared to our out-of-region competitors in serving the U.S. farm belt agricultural market. In 2011, approximately 56% of the corn planted in the United States was grown within a \$40/UAN ton freight train rate of the nitrogen fertilizer plant. We are therefore able to cost-effectively sell substantially all of our products in the higher margin agricultural market, whereas a significant portion of our competitors' revenues is derived from the lower margin industrial market. Our location on Union Pacific's main line increases our transportation cost advantage by lowering the costs of bringing our products to customers, assuming freight rates and pipeline tariffs for U.S. Gulf Coast importers as recently in effect. Our products leave the plant either in trucks for direct shipment to customers or in railcars for destinations located principally on the Union Pacific Railroad, and we do not currently incur any intermediate transfer, storage, barge freight or pipeline freight charges. We estimate that our plant enjoys a transportation cost advantage of approximately \$25 per ton over competitors located in the U.S. Gulf Coast. Selling products to customers within economic rail transportation limits of the nitrogen fertilizer plant and keeping transportation costs low are keys to maintaining profitability.

The value of nitrogen fertilizer products is also an important consideration in understanding our results. For the three and nine months ended September 30, 2012, we upgraded approximately 72% and 70%, respectively, of our ammonia production into UAN, a product that presently generates a greater value than ammonia. UAN production is a major contributor to our profitability.

The nitrogen fertilizer business' largest raw material expense is pet coke, which it purchases from our petroleum business and third parties. In the three and nine months ended September 30, 2012, the nitrogen fertilizer business spent approximately \$3.8 million and \$12.9 million, respectively, for pet coke, which equaled an average cost per ton of \$30 and \$34, respectively. In the three and nine months ended September 30, 2011, the nitrogen fertilizer business spent approximately \$5.6 million and \$11.6 million, respectively, for pet coke, which equaled an average cost per ton of \$43 and \$30, respectively.

The high fixed cost of the nitrogen fertilizer business' direct operating expense structure also directly affects its profitability. Using a pet coke gasification process, the nitrogen fertilizer business has a significantly higher percentage of fixed costs than a natural gas-based fertilizer plant. Major fixed operating expenses include electrical energy, employee labor, maintenance, including contract labor, and outside services. These fixed costs averaged approximately 87% of direct operating expenses over the 24 months ended December 31, 2011. The average annual operating costs over the 24 months ended December 31, 2011 have approximated \$86 million, of which substantially all are fixed in nature.

The nitrogen fertilizer business obtains most (over 70% on average during the last five years) of the pet coke it needs from our adjacent Coffeyville crude oil refinery pursuant to the pet coke supply agreement, and procures the remainder through a third-party contract. The price the nitrogen fertilizer business pays pursuant to the pet coke supply agreement is based on the lesser of a pet coke price derived from the price received for UAN, or the UAN-based price, and a pet coke price index. The UAN-based price begins with a pet coke price of \$25 per ton based on a price per ton for UAN (exclusive of transportation cost), or netback price, of \$205 per ton, and adjusts up or down \$0.50 per ton for every \$1.00 change in the netback price. The UAN-based price has a ceiling of \$40 per ton and a floor of \$5 per ton.

Consistent, safe, and reliable operations at the nitrogen fertilizer plant are critical to its financial performance and results of operations. Unplanned downtime of the nitrogen fertilizer plant may result in lost margin opportunity, increased maintenance expense and a temporary increase in working capital investment and related inventory position. The financial impact of planned downtime, such as major turnaround maintenance, is mitigated through a diligent planning process that takes into account margin environment, the availability of resources to perform the needed maintenance, feedstock logistics and other factors. The nitrogen fertilizer plant generally undergoes a facility turnaround every

Table of Contents

two years. The turnaround typically lasts 13-15 days each turnaround year and costs approximately \$3 million to \$5 million per turnaround. The nitrogen fertilizer plant completed a turnaround during the fourth quarter of 2012.

***Agreements Between CVR Energy and the Partnership***

In connection with our initial public offering and the transfer of the nitrogen fertilizer business to the Partnership in October 2007, we entered into a number of agreements with the Partnership that govern the business relations among the Partnership, CVR Energy and its affiliates, and the general partner of the Partnership. In connection with the Partnership IPO, we amended and restated certain of the intercompany agreements and entered into several new agreements with the Partnership. These include the pet coke supply agreement mentioned above, under which the petroleum business sells pet coke to the nitrogen fertilizer business; a services agreement, in which our management operates the nitrogen fertilizer business; a feedstock and shared services agreement, which governs the provision of feedstocks, including hydrogen, high-pressure steam, nitrogen, instrument air, oxygen and natural gas; a raw water and facilities sharing agreement, which allocates raw water resources between the two businesses; an easement agreement; an environmental agreement; and a lease agreement pursuant to which we lease office space and laboratory space to the Partnership. These agreements were not the result of arm's-length negotiations and the terms of these agreements are not necessarily at least as favorable to the parties to these agreements as terms which could have been obtained from unaffiliated third parties.

For the three months ended September 30, 2012 and 2011, the nitrogen fertilizer segment was charged approximately \$2.4 million and \$2.5 million, respectively, for management services. For the nine months ended September 30, 2012 and 2011, the nitrogen fertilizer segment was charged approximately \$7.5 million and \$7.9 million, respectively, for management services.

***Crude Oil Supply Agreement***

On August 31, 2012, CRRM and Vitol Inc. ("Vitol"), entered into an Amended and Restated Crude Oil Supply Agreement (the "Vitol Agreement"). The Vitol Agreement amends and restates the Crude Oil Supply Agreement between CRRM and Vitol dated March 30, 2011, as amended (the "Previous Supply Agreement"). The terms of the Vitol Agreement provide that CRRM will obtain all of the crude oil for the Company's two oil refineries through Vitol, other than crude oil that CRRM acquires in Kansas, Missouri, North Dakota, Oklahoma, Texas, Wyoming and all states adjacent to such states and crude oil that is transported in whole or in part via railcar or truck. Pursuant to the Vitol Agreement, CRRM and Vitol work together to identify crude oil and pricing terms that meet CRRM's crude oil requirements. CRRM and/or Vitol negotiate the cost of each barrel of crude oil that is purchased from third party crude oil suppliers. Vitol purchases all such crude oil, executes all third party sourcing transactions and provides transportation and other logistical services for the subject crude oil. Vitol then sells such crude oil and delivers the same to CRRM. Title and risk of loss for all crude oil purchased by CRRM via the Vitol Agreement passes to CRRM upon delivery to one of the Company's delivery points designated in the Vitol Agreement. CRRM pays Vitol a fixed origination fee per barrel plus the negotiated cost (including logistics costs) of each barrel of crude oil purchased. The Vitol Agreement has an initial term commencing on August 31, 2012 and extending through December 31, 2014 (the "Initial Term"). Following the Initial Term, the Vitol Agreement will automatically renew for successive one-year terms (each such term, a "Renewal Term") unless either party provides the other with notice of nonrenewal at least 180 days prior to expiration of the Initial Term or any Renewal Term. Notwithstanding the foregoing, CRRM has an option to terminate the Vitol Agreement effective December 31, 2013 by providing written notice of termination to Vitol on or before May 1, 2013.

Table of Contents

**Factors Affecting Comparability**

Our historical results of operations for the periods presented may not be comparable with prior periods or to our results of operations in the future for the reasons discussed below.

***Transaction Expenses***

In February 2012, Icahn commenced a tender offer to acquire all of the outstanding shares of common stock of our Company. On April 18, 2012, we entered into a transaction agreement and on May 7, 2012, Icahn announced that control of the Company had been acquired. CVR incurred related costs of approximately \$0 and \$44.2 million for the three and nine months ended September 30, 2012. We are currently challenging a majority of the expenses charged and, if we are successful, such expenses would be reversed and have a favorable impact to our results of operations.

***Wynnewood Acquisition***

The financial results of GWEC, which was acquired on December 15, 2011, have been included in the results of our petroleum business since the date of the Wynnewood Acquisition. The Wynnewood Acquisition enhances the petroleum business by expanding our process capacity and diversifying our asset base. Results for the three and nine months ended September 30, 2012 included net sales of approximately \$772.8 million and \$2,380.6 million, respectively and operating income of \$154.4 million and \$319.1 million, respectively, related to GWEC.

***Indebtedness***

***ABL Credit Facility.*** On February 22, 2011, we entered into a \$250.0 million asset-backed revolving credit agreement ("ABL credit facility"). The ABL credit facility replaced the first priority credit facility described below, which was terminated. As a result of the termination of the first priority credit facility, we expensed a portion of our previously deferred financing costs of approximately \$1.9 million. This expense is reflected on the Consolidated Statement of Operations as a loss on extinguishment of debt for the year ended December 31, 2011. On December 15, 2011, we entered into an incremental commitment agreement to increase availability under the ABL credit facility by an additional \$150.0 million. In connection with entering into and then expanding the ABL credit facility, we incurred approximately \$9.9 million of fees that were deferred and are to be amortized over the term of the credit facility on a straight-line basis.

***Notes.*** In April 2010, we issued \$275.0 million aggregate principal amount of 9.0% First Lien Senior Secured Notes due 2015 (the "First Lien Notes") and \$225.0 million aggregate principal amount of 10.875% Second Lien Senior Secured Notes due 2017 (the "Second Lien Notes" and together with the First Lien Notes, the "Notes"). We used the proceeds from the sale of the Notes to pay off the \$453.0 million of term loans as described below.

In December 2010, we made a voluntary unsecured payment of \$27.5 million on our First Lien Notes, resulting in a premium payment of 3.0% and a partial write-off of previously deferred financing costs and unamortized original issue discount totaling approximately \$1.6 million, which was recognized as a loss on extinguishment of debt in our Consolidated Statements of Operations.

On December 15, 2011, we issued an additional \$200.0 million of our First Lien Notes to partially fund the Wynnewood Acquisition. Financing and other third party costs incurred at the time of \$6.0 million were deferred and are amortized over the remaining term of the First Lien Notes. In connection with the Wynnewood Acquisition, in November 2011 we received a commitment for a one year bridge loan, which remained undrawn and was terminated as a result of the issuance of the First Lien Notes. Fees and other third party costs related to the bridge commitment totaling \$3.9 million were expensed in December 2011. We also recognized approximately \$0.1 million of third party costs at

Table of Contents

the time the First Lien Notes were issued. Other financing and third party costs incurred at the time were deferred and are amortized over the respective terms of the First Lien Notes. The premiums paid, previously deferred financing costs subject to write-off and immediately recognized third party expenses are reflected as a loss on extinguishment of debt in our Consolidated Statements of Operations.

**Partnership Credit Facility.** On April 13, 2011, CRNF, as borrower, and the Partnership, as guarantor, entered into a new credit facility with a group of lenders. The credit facility includes a term loan facility of \$125.0 million and a revolving credit facility of \$25.0 million with an uncommitted incremental facility of up to \$50.0 million. There is no scheduled amortization and the credit facility matures in April 2016. The average interest rate for the term loan for the nine months ended September 30, 2012 was 3.94%. The revolving credit facility is used to finance on-going working capital, capital expenditures, letter of credit issuances and other general needs of CRNF.

***Share-Based Compensation***

Through the Company's Long-Term Incentive Plan ("LTIP"), equity compensation awards may be awarded to the Company's employees, officers, consultants, advisors and directors including, but not limited to, shares of non-vested common stock. Prior to the acquisition by IEP Energy, LLC and the related change of control, restricted shares, when granted, were valued at the closing market price of CVR Energy's common stock at the date of issuance and amortized to compensation expense on a straight-line basis over the vesting period of the stock. The change of control and related Transaction Agreement triggered a modification to the LTIP. Pursuant to the Transaction Agreement, all employee restricted stock awards that vest in 2012 will vest in accordance with the current vesting terms and upon vesting will receive the offer price of \$30 per share in cash plus one CCP. For all such awards that vest in accordance with their terms in 2013, 2014 and 2015, the holders of the awards will receive the lesser of the offer price or the appraised value of the shares at the time of vesting. As a result of the modification, additional share-based compensation of \$12.4 million was incurred to revalue the unvested shares to the fair value upon the date of modification. For awards vesting subsequent to 2012, the awards will be remeasured at each subsequent reporting date until they vest. In addition, the classification changed from an equity award to a liability award due to the cash settlement of the awards. For the three months ended September 30, 2012 and 2011, we incurred compensation expense of \$6.0 million and \$2.0 million, respectively, related to non-vested share-based compensation awards. For the nine months ended September 30, 2012 and 2011, we incurred compensation expense of \$26.8 million and \$6.7 million, respectively, related to non-vested share-based compensation awards.

Through the CVR Partners, LP Long-Term Incentive Plan, shares of non-vested common units may be awarded to the employees, officers, consultants, and directors of the Partnership, the general partner, and their respective subsidiaries and parents. Non-vested units, when granted, are valued at the closing market price of CVR Partners common units at the date of issuance and amortized to compensation expense on a straight-line basis over the vesting period of the stock. For the three months ended September 30, 2012 and 2011, we incurred compensation expense of \$0.5 million and \$0.5 million, respectively, related to non-vested share-based compensation awards. For the nine months ended September 30, 2012 and 2011, we incurred compensation expense of \$1.6 million and \$0.8 million, respectively, related to non-vested share-based compensation awards.

Through a wholly-owned subsidiary, we had two Phantom Unit Appreciation Plans (the "Phantom Unit Plans"), whereby directors, employees, and service providers historically could be awarded phantom points at the discretion of the board of directors or the compensation committee. We accounted for awards under our Phantom Unit Plans as liability based awards. In accordance with FASB ASC Topic 718, *Compensation - Stock Compensation*, the expense associated with these awards was based on the current fair value of the awards which was derived from a probability-weighted expected return method.

Table of Contents

Also, in conjunction with our initial public offering in October 2007, the override units of CALLC were modified and split evenly into override units of CALLC and CALLC II. As a result of this modification, the awards were no longer accounted for as employee awards and became subject to an accounting standard issued by the FASB which provides guidance regarding the accounting treatment by an investor for stock-based compensation granted to employees of an equity method investee. In addition, these awards are subject to an accounting standard issued by the FASB which provides guidance regarding the accounting treatment for equity instruments that are issued to recipients other than employees for acquiring or in conjunction with selling goods or services. In accordance with this accounting guidance, the expense associated with the awards is based on the current fair value of the awards which is derived under the same methodology as the Phantom Unit Plans, as remeasured at each reporting date until the awards vest. Certain override units became fully vested during the second quarter of 2010. As such, there was no additional expense incurred, subsequent to vesting, with respect to these share-based compensation awards. Due to the divestiture of all ownership of CVR Energy by CALLC and CALLC II in 2011, there will be no further share-based compensation expense associated with override units subsequent to 2011. In association with the divestiture of ownership and the distributions to the override unitholders of CALLC and CALLC II, the holders of phantom units received the associated payments in 2011. As a result, there will be no further share-based compensation expense recorded for the Phantom Unit Plans subsequent to 2011. For the three and nine month periods ended September 30, 2011, we incurred compensation expense of \$0 and \$16.2 million, respectively, related to phantom and override unit share-based compensation awards.

*Noncontrolling Interest*

Prior to the Partnership IPO, the noncontrolling interests represented the incentive distribution rights ("IDRs") of CVR GP, LLC. In April 2011, in connection with the Partnership IPO, the IDRs were purchased by the Partnership and were subsequently extinguished, eliminating the associated noncontrolling interest related to the IDRs. As a result of the Partnership IPO, CVR Energy recorded a noncontrolling interest for the common units sold into the public market, which represented an approximately 30% interest in the net book value of the Partnership at the time of the Partnership IPO. Effective with the Partnership IPO, CVR Energy's noncontrolling interest reflected on the consolidated balance sheet has been impacted by approximately 30% of the net income of the Partnership and related distributions for each future reporting period. The revenue and expenses from the Partnership are consolidated with CVR Energy's statement of operations because the general partner is owned by CRLLC, a wholly-owned subsidiary of CVR Energy, and therefore has the ability to control the activities of the Partnership. However, the percentage of ownership held by the public unitholders is reflected as net income attributable to noncontrolling interest in our consolidated statement of operations and reduces consolidated net income to derive net income attributable to CVR Energy.

*September 2010 UAN Vessel Rupture*

On September 30, 2010, the nitrogen fertilizer plant experienced an interruption in operations due to a rupture of a high-pressure UAN vessel. All operations at the nitrogen fertilizer facility were immediately shut down. No one was injured in the incident.

Total gross costs related to the incident were approximately \$11.5 million for repairs and maintenance and other associated costs. Of the costs incurred, approximately \$4.7 million were capitalized. Approximately \$8.0 million of insurance proceeds were received related to the property damage insurance claim. The Partnership received approximately \$4.3 million in 2010, approximately \$2.7 million in 2011 and approximately \$1.0 million in 2012 related to the property damage insurance claim. The Partnership also recognized income of approximately \$3.4 million during 2011 from insurance proceeds received related to the business interruption policy. As of September 30, 2012, the

Table of Contents

Partnership has received the final insurance payments under applicable insurance policies and those insurance policy claims are closed.

***Fertilizer Plant Property Taxes***

CRNF received a ten year property tax abatement from Montgomery County, Kansas in connection with the construction of the nitrogen fertilizer plant that expired on December 31, 2007. In connection with the expiration of the abatement, the county reassessed CRNF's nitrogen fertilizer plant and classified the nitrogen fertilizer plant as almost entirely real property instead of almost entirely personal property. The reassessment resulted in an increase in CRNF's annual property tax expense by an average of approximately \$10.7 million per year for the years ended December 31, 2008 and December 31, 2009, \$11.7 million for the year ended December 31, 2010 and \$11.4 million for the year ended December 31, 2011. CRNF did not agree with the county's classification of its nitrogen fertilizer plant and protested the classification and resulting valuation for each of those years to the Kansas Court of Tax Appeals, or COTA. However, CRNF has fully accrued and paid the property taxes the county claims are owed for the years ended December 31, 2011, 2010, 2009 and 2008 and has estimated and accrued for property tax for the first nine months of 2012. This property tax expense is reflected as a direct operating expense in our financial results. In February 2011, CRNF tried the 2008 case to COTA and in January 2012, COTA issued its decision holding that CRNF's fertilizer plant was almost entirely real property instead of almost entirely personal property. CRNF disagreed with the ruling and filed a petition for reconsideration with COTA (which was denied) and has filed an appeal to the Kansas Court of Appeals. CRNF is also protesting the valuation of the CRNF fertilizer plant for tax years 2009 through 2011, which cases remain pending before COTA. If CRNF is successful in having the nitrogen fertilizer plant reclassified as personal property, in whole or in part, then a portion of the accrued and paid property tax expenses would be refunded to CRNF, which could have a material positive effect on our results of operations. If CRNF is not successful in having the nitrogen fertilizer plant reclassified as personal property, in whole or in part, then CRNF expects that it will continue to pay property taxes at elevated rates.

***Partnership Distributions to Unitholders***

The current policy of the board of directors of the Partnership's general partner is to distribute all of the available cash the Partnership generates each quarter. Available cash for each quarter will be determined by the board of directors of the Partnership's general partner following the end of such quarter. Available cash for each quarter will generally equal the Partnership's cash flow from operations for the quarter, less cash needed for maintenance capital expenditures, debt service and other contractual obligations and reserves for future operating or capital needs that the board of directors of its general partner deems necessary or appropriate. Additionally, the Partnership retains cash on hand associated with prepaid sales at each quarter end for future distributions to common unitholders based upon the recognition into income of the prepaid sales. The board of directors of the Partnership may modify the cash distribution policy at any time, and the partnership agreement does not require the Partnership to make distributions at all.

The Partnership did not make quarterly distributions to unitholders prior to the closing of the Initial Public Offering.

## Edgar Filing: CVR ENERGY INC - Form 10-Q

### Table of Contents

The following is a summary of cash distributions paid to unitholders during 2012 for the respective quarters to which the distributions relate:

	December 31, 2011	March 31, 2012	June 30, 2012	Total 2012 Distributions To Date
	(\$ in millions except per common units amounts)			
Amount paid CRLLC	\$ 29.9	\$ 26.6	\$ 30.5	\$ 87.1
Amounts paid to public unitholders	13.0	11.6	13.3	37.9
<b>Total amount paid</b>	<b>\$ 42.9</b>	<b>\$ 38.2</b>	<b>\$ 43.8</b>	<b>\$ 125.0</b>
Per common unit	\$ 0.588	\$ 0.523	\$ 0.600	\$ 1.711
Common units outstanding	73,030,936	73,030,936	73,043,356	

On October 26, 2012, the board of directors of the Partnership's general partner declared a quarterly cash distribution to the Partnership's unitholders of \$0.496 per unit or \$36.2 million in aggregate. We will receive \$25.2 million in respect of our common units. The cash distribution will be paid on November 14, 2012, to unitholders of record at the close of business on November 7, 2012. This distribution is for the third quarter of 2012.

#### *Partnership Interest Rate Swap*

Our and the Partnership's profitability and cash flows are affected by changes in interest rates, specifically LIBOR and prime rates. The primary purpose of our interest rate risk management activities is to hedge our and the Partnership's exposure to changes in interest rates by using interest rate derivatives to convert some or all of the interest rates the Partnership pays for the \$125.0 million of term loan borrowings from a floating rate to a fixed rate.

On June 30 and July 1, 2011, CRNF entered into two Interest Rate Swap agreements with J. Aron. We have determined that the Interest Rate Swaps qualify as a hedge for hedge accounting treatment. The impact recorded for the three months ended September 30, 2012 and 2011 was \$0.2 million and \$0.1 million in interest expense, respectively. For the nine months ended September 30, 2012 and 2011, the impact recorded was \$0.7 million and \$0.1 million in interest expense, respectively. For the three months ended September 30, 2012 and 2011, the Partnership recorded a decrease in fair market value on the Interest Rate Swap agreements of \$0.1 million and \$2.4 million, respectively. For the nine months ended September 30, 2012, the Partnership recorded a decrease in fair market value on the Interest Rate Swap agreements of \$0.6 million and \$2.4 million, respectively.

#### *Commodity Swaps Petroleum Segment*

Beginning in September 2011, we entered into commodity swap contracts with effective periods beginning in January 2012. The physical volumes are not exchanged and these contracts are net settled with cash. The contract fair value of the commodity swaps is reflected on the Consolidated Balance Sheets with changes in fair value currently recognized in the Consolidated Statements of Operations. At September 30, 2012, we had open commodity hedging instruments consisting of 26.3 million barrels of crack spreads primarily to fix the margin on a portion of our future gasoline and distillate production with effective periods beginning in 2012 and 2013. None of these swap contracts were designated as cash flow hedges and all changes in fair market value will be reported in earnings in the period in which the value change occurs. For the three months ended September 30, 2012, the Company recognized a realized loss of \$45.3 million and an unrealized loss of \$116.5 million. For the nine months ended September 30, 2012, the Company recognized a realized loss of \$70.3 million and an unrealized loss of \$196.1 million.

Table of Contents

***Turnaround Projects***

Turnaround projects are a required standard procedure that involves the shut down and inspection of major process units in order to refurbish, repair and maintain the plant assets. These major maintenance projects occur every four to five years for our refineries and every two years for the nitrogen fertilizer plant.

The Coffeyville refinery completed the second phase of a two-phase planned turnaround project during the first quarter of 2012. The first phase was completed during the fourth quarter of 2011. The Coffeyville refinery incurred costs of approximately \$21.2 million and \$12.2 million for the nine months ended September 30, 2012 and 2011, respectively, associated with the 2011/2012 turnaround. Costs associated with turnaround projects are recorded in direct operating expense (exclusive of depreciation and amortization) on the Consolidated Statements of Operations.

The Wynnewood refinery began turnaround maintenance in the fourth quarter of 2012. We expect to incur approximately \$100.0 million of expenses during 2012 related to the Wynnewood refinery's turnaround. The Wynnewood refinery has incurred \$13.4 million of turnaround costs in the nine months ended September 30, 2012. It is anticipated that the downtime associated with the Wynnewood refinery turnaround will approximate 50 to 55 days and will significantly impact our revenue for the fourth quarter of 2012.

The nitrogen fertilizer facility completed a major turnaround during the fourth quarter of 2012. The Partnership incurred costs of approximately \$4.9 million for the turnaround, substantially all of which were incurred during the fourth quarter of 2012. The downtime associated with the nitrogen fertilizer turnaround lasted 19 days and will significantly impact the Partnership's revenue for the fourth quarter of 2012. The expected turnaround period for 2012 was extended four days beyond the Partnership's normal expected turnaround time due to third-party need for additional preventative maintenance work.

**Results of Operations**

The following tables summarize the financial data and key operating statistics for CVR and our two operating segments for the three and nine months ended September 30, 2012 and 2011. The following data should be read in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere in this Form 10-Q. All information in "Management's Discussion



Edgar Filing: CVR ENERGY INC - Form 10-Q

Table of Contents

and Analysis of Financial Condition and Results of Operations," except for the balance sheet data as of December 31, 2011, is unaudited.

	Three Months Ended September 30,		Change from 2011	
	2012	2011	Change	Percent
(in millions, except per share amount)				
<b>Consolidated Statement of Operations Data:</b>				
Net sales	\$ 2,409.6	\$ 1,352.0	\$ 1,057.6	78.2%
Cost of product sold(1)	1,702.5	1,026.0	676.5	65.9
Direct operating expenses(1)	109.9	74.6	35.3	47.3
Insurance recovery business interruption		(0.5)	0.5	(100.0)
Selling, general and administrative expenses(1)	30.4	17.7	12.7	71.8
Depreciation and amortization(2)	33.1	22.0	11.1	50.5
Operating income	533.7	212.2	321.5	151.5
Interest expense and other financing costs	(18.9)	(13.8)	(5.1)	37.0
Gain (loss) on derivatives, net				
Realized	(53.2)	0.1	(53.3)	(53,300.0)
Unrealized	(115.7)	(10.0)	(105.7)	1,057.0
Other income, net	0.2	0.4	(0.2)	(50.0)
Income before income tax expense	346.1	188.9	157.2	83.2
Income tax expense	127.6	68.6	59.0	86.0
Net income(3)	218.5	120.3	98.2	81.6
Less: Net income attributable to noncontrolling interest	9.6	11.0	(1.4)	(12.7)
Net income attributable to CVR Energy stockholders	\$ 208.9	\$ 109.3	\$ 99.6	91.1%
Basic earnings per share	\$ 2.41	\$ 1.26	\$ 1.15	91.3%
Diluted earnings per share	\$ 2.41	\$ 1.25	\$ 1.16	92.8%
Weighted-average common shares outstanding:				
Basic	86,831,050	86,549,846	281,204	0.3%
Diluted	86,831,050	87,743,600	(912,550)	(1.0)%

Table of Contents

	Nine Months Ended September 30,		Change from 2011	
	2012	2011	Change	Percent
(in millions, except per share amount)				
<b>Consolidated Statement of Operations Data:</b>				
Net sales	\$ 6,686.5	\$ 3,966.9	\$ 2,719.6	68.6%
Cost of product sold(1)	5,211.9	3,086.2	2,125.7	68.9
Direct operating expenses(1)	319.5	209.3	110.2	52.7
Insurance recovery business interruption		(3.4)	3.4	(100.0)
Selling, general and administrative expenses(1)	147.7	69.0	78.7	114.1
Depreciation and amortization(2)	97.4	66.1	31.3	47.4
Operating income	910.0	539.7	370.3	68.6
Interest expense and other financing costs	(57.1)	(41.2)	(15.9)	38.6
Gain (loss) on derivatives, net				
Realized	(80.4)	(18.3)	(62.1)	339.3
Unrealized	(197.0)	(6.8)	(190.2)	2,797.1
Loss on extinguishment of debt		(2.1)	2.1	(100.0)
Other income, net	1.3	1.4	(0.1)	(7.1)
Income before income tax expense	576.8	472.7	104.1	22.0
Income tax expense	209.0	172.5	36.5	21.2
Net income (loss)(3)	367.8	300.2	67.6	22.5
Less: Net income attributable to noncontrolling interest	29.4	20.3	9.1	44.8
Net income (loss) attributable to CVR Energy stockholders	\$ 338.4	\$ 279.9	\$ 58.5	20.9%
Basic earnings (loss) per share	\$ 3.90	\$ 3.24	\$ 0.66	20.4%
Diluted earnings (loss) per share	\$ 3.86	\$ 3.19	\$ 0.67	21.0%
Weighted-average common shares outstanding:				
Basic	86,820,181	86,462,668	357,513	0.4%
Diluted	87,580,588	87,772,169	(191,581)	(0.2)%

As of September 30,      As of December 31,  
2012                              2011  
(unaudited)

(in millions)

<b>Balance Sheet Data</b>	
Cash and cash equivalents	\$ 988.2      \$ 388.3
Working capital	1,137.7      769.2
Total assets	3,652.4      3,119.3
Long-term debt	850.9      853.9
Total CVR Energy stockholders' equity	1,485.1      1,151.6

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
	(in millions)			
<b>Cash Flow Data</b>				
Net cash flow provided by (used in):				
Operating activities	\$ 347.9	\$ 183.3	\$ 783.8	\$ 345.9
Investing activities	(38.8)	(23.1)	(143.6)	(43.8)
Financing activities	(13.5)	(9.7)	(40.3)	396.3
Net cash flow	\$ 295.6	\$ 150.5	\$ 599.9	\$ 698.4
<b>Other Financial Data</b>				
Capital expenditures for property, plant and equipment	\$ 39.9	\$ 25.7	\$ 145.1	\$ 46.6

(1) Amounts are shown exclusive of depreciation and amortization.

(2) Depreciation and amortization is comprised of the following components as excluded from cost of product sold, direct operating expenses and selling, general and administrative expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
	(in millions)			
Depreciation and amortization excluded from cost of product sold	\$ 1.0	\$ 0.6	\$ 2.6	\$ 1.9
Depreciation and amortization excluded from direct operating expenses	31.6	21.0	93.1	62.8
Depreciation and amortization excluded from selling, general and administrative expenses	0.5	0.4	1.7	1.4
Total depreciation and amortization	\$ 33.1	\$ 22.0	\$ 97.4	\$ 66.1

(3) The following are certain charges and costs incurred in each of the relevant periods that are meaningful to understanding our net income and in evaluating our performance:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
	(in millions)			
Loss on extinguishment of debt(a)	\$	\$	\$	\$ 2.1
Letter of credit expense and interest rate swap not included in interest expense(b)	0.2	0.3	0.9	1.3
Share-based compensation expense(c)	6.5	2.4	28.5	23.6
Major scheduled turnaround expense(d)	11.3	8.0	34.8	12.2

(a)

## Edgar Filing: CVR ENERGY INC - Form 10-Q

On February 22, 2011, CRLLC entered into a \$250.0 million ABL credit facility, as described in further detail below. The ABL credit facility replaced the first priority credit facility which was terminated. As a result of the termination of the first priority credit facility we wrote-off a portion of our previously deferred financing costs of approximately \$1.9 million. Additionally, \$0.2 million of the loss on extinguishment of debt was attributable to the write-off of previously deferred financing costs and unamortized original issue discount associated with the repurchase of \$2.7 million of First Lien Notes.

Table of Contents

- (b) Consists of fees which are expensed to selling, general and administrative expenses in connection with letters of credit outstanding.
- (c) Represents the impact of share-based compensation awards.
- (d) Represents expenses associated with major scheduled turnarounds in the petroleum and nitrogen fertilizer segments.

**Consolidated Petroleum Segment Results of Operations**

The following tables below provide an overview of the petroleum business' results of operations, relevant market indicators and its key operating statistics:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
	(in millions, except as otherwise indicated)			
<b>Consolidated Petroleum Segment Summary Financial Results</b>				
Net sales	\$ 2,337.3	\$ 1,284.4	\$ 6,465.3	\$ 3,772.3
Cost of product sold(1)	1,694.0	1,024.5	5,190.8	3,077.5
Direct operating expenses(1)(2)	77.7	46.5	218.5	131.8
Major scheduled turnaround expenses	11.1	8.0	34.6	12.2
Depreciation and amortization	27.5	17.0	80.4	50.9
Gross profit(3)	527.0	188.4	941.0	499.9
Plus direct operating expenses and major scheduled turnaround expenses(1)	88.8	54.5	253.1	144.0
Plus depreciation and amortization	27.5	17.0	80.4	50.9
Refining margin(4)	643.3	259.9	1,274.5	694.8
Operating income (loss)	\$ 507.5	\$ 179.8	\$ 891.2	\$ 469.0
Adjusted Petroleum EBITDA(5)	\$ 444.2	\$ 232.0	\$ 989.7	\$ 525.2

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
	(in millions)			
<b>Key Operating Statistics</b>				
Per crude oil throughput barrel:				
Refining margin(4)	\$ 36.31	\$ 25.03	\$ 26.34	\$ 23.77
Gross profit(3)	\$ 29.75	\$ 18.14	\$ 19.45	\$ 17.10
Direct operating expenses and major scheduled turnaround expenses(1)(2)	\$ 5.02	\$ 5.25	\$ 5.23	\$ 4.93
Direct operating expenses and major scheduled turnaround expenses per barrel sold(1)(6)	\$ 4.81	\$ 5.19	\$ 4.75	\$ 4.71
Barrels sold (barrels per day)(6)	200,683	114,061	194,638	111,939

Edgar Filing: CVR ENERGY INC - Form 10-Q

Table of Contents

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
		%		%		%		%
<b>Refining Throughput and Production Data (barrels per day)</b>								
Throughput:								
Sweet	149,768	73.8	91,498	78.8	136,463	73.4	85,401	75.8
Light/medium sour	21,188	10.4	994	0.8	21,708	11.7	598	0.5
Heavy sour	21,607	10.6	20,393	17.6	18,418	9.9	21,071	18.7
Total crude oil throughput	192,563	94.8	112,885	97.2	176,589	95.0	107,070	95.0
All other feedstocks and blendstocks	10,475	5.2	3,206	2.8	9,448	5.0	5,671	5.0
Total throughput	203,038	100.0	116,091	100.0	186,037	100.0	112,741	100.0
Production:								
Gasoline	98,016	48.5	49,886	42.7	92,114	49.7	50,998	45.0
Distillate	82,224	40.7	50,189	43.0	75,568	40.8	47,368	41.8
Other (excluding internally produced fuel)	21,928	10.8	16,770	14.3	17,588	9.5	15,038	13.2
Total refining production (excluding internally produced fuel)	202,168	100.0	116,845	100.0	185,270	100.0	113,404	100.0
Product price (dollars per gallon):								
Gasoline	\$ 3.03		\$ 2.95		\$ 2.93		\$ 2.89	
Distillate	\$ 3.15		\$ 3.07		\$ 3.07		\$ 3.04	

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Market Indicators (dollars per barrel)</b>				
West Texas Intermediate (WTI) NYMEX	\$ 92.20	\$ 89.54	\$ 96.16	\$ 95.47
Crude Oil Differentials:				
WTI less WTS (light/medium sour)	3.34	0.82	4.10	2.46
WTI less WCS (heavy sour)	15.53	14.09	21.06	17.86
NYMEX Crack Spreads:				
Gasoline	31.70	32.01	29.21	26.04
Heating Oil	33.86	35.82	30.54	28.51
NYMEX 2-1-1 Crack Spread	32.78	33.92	29.87	27.27
PADD II Group 3 Basis:				
Gasoline	2.22	(0.03)	(2.58)	(1.21)
Ultra Low Sulfur Diesel	5.53	2.54	2.04	2.32
PADD II Group 3 Product Crack:				
Gasoline	33.92	31.98	26.63	24.82
Ultra Low Sulfur Diesel	39.38	38.36	32.58	30.82
PADD II Group 3 2-1-1	36.65	35.17	29.60	27.82

(1) Amounts are shown exclusive of depreciation and amortization.

(2) Direct operating expense is presented on a per crude oil throughput basis. In order to derive the direct operating expenses per crude oil throughput barrel, we utilize the total direct operating expenses, which does not include depreciation or amortization expense, and divide by the applicable number of crude oil throughput barrels for the period.



Table of Contents

- (3) In order to derive the gross profit per crude oil throughput barrel, we utilize the total dollar figures for gross profit as derived above and divide by the applicable number of crude oil throughput barrels for the period.
- (4) Refining margin per crude oil throughput barrel is a measurement calculated as the difference between net sales and cost of product sold (exclusive of depreciation and amortization). Refining margin is a non-GAAP measure that we believe is important to investors in evaluating the performance of our refineries as a general indication of the amount above our cost of product sold that we are able to sell refined products. Each of the components used in this calculation (net sales and cost of product sold (exclusive of depreciation and amortization)) are taken directly from our Condensed Statement of Operations. Our calculation of refining margin may differ from similar calculations of other companies in our industry, thereby limiting its usefulness as a comparative measure. In order to derive the refining margin per crude oil throughput barrel, we utilize the total dollar figures for refining margin as derived above and divide by the applicable number of crude oil throughput barrels for the period. We believe that refining margin and refining margin per crude oil throughput barrel is important to enable investors to better understand and evaluate our ongoing operating results and allow for greater transparency in the review of our overall financial, operational and economic performance.
- (5) Adjusted Petroleum EBITDA represents operating income adjusted for FIFO impacts (favorable) unfavorable, share-based compensation, and where applicable, major scheduled turnaround expenses, realized gain (loss) on derivatives, net, depreciation and amortization and other income (expense). Adjusted EBITDA by operating segment results from operating income by segment adjusted for items that we believe are needed in order to evaluate results in a more comparative analysis from period to period. Adjusted EBITDA by operating segment is not a recognized term under GAAP and should not be substituted for operating income as a measure of performance but should be utilized as a supplemental measure of performance in evaluating our business. Management believes that adjusted EBITDA by operating segment provides relevant and useful information that enables investors to better understand and evaluate our ongoing operating results and allows for greater transparency in the reviewing of our overall financial, operational and economic performance. Below is a reconciliation of operating income to adjusted EBITDA for the petroleum segment for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
	(in millions)			
<b>Petroleum Consolidated:</b>				
Petroleum operating income	\$ 507.5	\$ 179.8	\$ 891.2	\$ 469.0
FIFO impacts (favorable), unfavorable(a)	(50.9)	26.2	54.3	1.5
Share-based compensation	2.3	0.8	8.8	8.0
Major scheduled turnaround expenses(b)	11.1	8.0	34.6	12.2
Realized gain (loss) on derivatives, net	(53.3)	0.1	(80.4)	(18.3)
Loss on disposition of fixed assets				1.5
Depreciation and amortization	27.5	17.0	80.4	50.9
Other income		0.1	0.8	0.4
<b>Adjusted Petroleum EBITDA</b>	<b>\$ 444.2</b>	<b>\$ 232.0</b>	<b>\$ 989.7</b>	<b>\$ 525.2</b>

- (a) FIFO is the petroleum business' basis for determining inventory value on a GAAP basis. Changes in crude oil prices can cause fluctuations in the inventory valuation of our crude oil, work in process and finished goods thereby resulting in favorable FIFO impacts when crude



Table of Contents

oil prices increase and unfavorable FIFO impacts when crude oil prices decrease. The FIFO impact is calculated based upon inventory values at the beginning of the accounting period and at the end of the accounting period. In order to derive the FIFO impact per crude oil throughput barrel, we utilize the total dollar figures for the FIFO impact and divide by the number of crude oil throughput barrels for the period.

(b) Represents expense associated with a major scheduled turnaround in the Petroleum segment.

(6) Direct operating expense is presented on a per barrel sold basis. Barrels sold are derived from the barrels produced and shipped from the refineries. We utilize the total direct operating expenses, which does not include depreciation or amortization expense, and divide by the applicable number of barrels sold for the period to derive the metric.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
	(in millions)			
<b>Coffeyville Refinery Financial Results</b>				
Net sales	\$ 1,564.3	\$ 1,284.4	\$ 4,084.3	\$ 3,772.1
Cost of product sold (exclusive of depreciation and amortization)	1,135.2	1,024.6	3,268.2	3,077.7
Direct operating expenses (exclusive of depreciation and amortization)	47.3	46.5	134.7	131.7
Major scheduled turnaround expenses	0.2	8.0	21.2	12.2
Depreciation and amortization	17.4	16.4	52.1	49.0
Gross profit	364.2	188.9	608.1	501.5
Plus direct operating expenses (exclusive of depreciation and amortization) and major scheduled turnaround expenses	47.5	54.5	155.9	143.9
Plus depreciation and amortization	17.4	16.4	52.1	49.0
Refining margin	\$ 429.1	\$ 259.8	\$ 816.1	\$ 694.4
Operating income	\$ 353.6	\$ 180.3	\$ 573.3	\$ 472.1

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
	(dollars per barrel)			
<b>Coffeyville Refinery Key Operating Statistics</b>				
Per crude oil throughput barrel:				
Refining margin	\$ 37.42	\$ 25.02	\$ 26.71	\$ 23.76
Gross profit	\$ 31.76	\$ 18.19	\$ 19.90	\$ 17.16
Direct operating expenses and major scheduled turnaround expenses (exclusive of depreciation and amortization)	\$ 4.14	\$ 5.25	\$ 5.10	\$ 4.92
Direct operating expenses and major scheduled turnaround expenses per barrel sold	\$ 3.83	\$ 5.19	\$ 4.65	\$ 4.71
Barrels sold (barrels per day)	134,873	114,061	122,482	111,939

Edgar Filing: CVR ENERGY INC - Form 10-Q

Table of Contents

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
		%		%		%		%
<b><u>Coffeyville Refinery Throughput and Production Data (bpd)</u></b>								
Throughput:								
Sweet	100,427	76.0	91,498	78.8	90,871	77.0	85,401	75.8
Light/medium sour	2,609	2.0	994	0.8	2,216	1.9	598	0.5
Heavy sour	21,607	16.4	20,393	17.6	18,418	15.6	21,071	18.7
Total crude oil throughput	124,643	94.4	112,885	97.2	111,505	94.5	107,070	95.0
All other feedstocks and blendstocks	7,465	5.6	3,206	2.8	6,448	5.5	5,671	5.0
Total throughput	132,108	100.0	116,091	100.0	117,953	100.0	112,741	100.0
Production:								
Gasoline	63,991	47.8	49,886	42.7	58,889	49.2	50,998	45.0
Distillate	56,230	42.0	50,189	43.0	50,766	42.4	47,368	41.8
Other (excluding internally produced fuel)	13,756	10.2	16,770	14.3	10,014	8.4	15,038	13.2
Total refining production (excluding internally produced fuel)	133,977	100.0	116,845	100.0	119,669	100.0	113,404	100.0
Product price (dollars per gallon):								
Gasoline	\$ 3.03		\$ 2.95		\$ 2.94		\$ 2.89	
Distillate	\$ 3.15		\$ 3.07		\$ 3.06		\$ 3.04	

	Three Months Ended		Nine Months Ended	
	September 30, 2012		September 30, 2012	
	(unaudited)		(unaudited)	
(in millions)				
<b><u>Wynnewood Refinery Financial Results</u></b>				
Net sales	\$	772.8	\$	2,380.6
Cost of product sold (exclusive of depreciation and amortization)		559.5		1,924.5
Direct operating expenses (exclusive of depreciation and amortization)		30.1		83.6
Major scheduled turnaround expense		11.0		13.4
Depreciation and amortization		9.0		25.7
Gross profit		163.2		333.4
Plus direct operating expenses (exclusive of depreciation and amortization) and major scheduled turnaround expenses		41.1		97.0
Plus depreciation and amortization		9.0		25.7
Refining margin	\$	213.3	\$	456.1
Operating income	\$	154.4	\$	319.1

Table of Contents

	Three Months Ended September 30, 2012 (unaudited)	Nine Months Ended September 30, 2012 (unaudited)
	(dollars per barrel)	
<b><u>Wynnewood Refinery Key Operating Statistics</u></b>		
Per crude oil throughput barrel:		
Refining margin	\$ 34.13	\$ 25.58
Gross profit	26.12	18.70
Direct operating expenses (exclusive of depreciation and amortization) and major scheduled turnaround expenses	6.58	5.44
Direct operating expenses and major scheduled turnaround expenses per barrel sold	6.54	4.91
Barrels sold (barrels per day)	68,311	72,087

	Three Months Ended September 30, 2012 %		Nine Months Ended September 30, 2012 %	
<b><u>Wynnewood Refinery Throughput and Production Data (bpd)</u></b>				
Throughput:				
Sweet	49,341	69.6	45,592	67.0
Light/medium sour	18,579	26.2	19,492	28.6
Heavy sour				
Total crude oil throughput	67,920	95.8	65,084	95.6
All other feedstocks and blendstocks	3,010	4.2	3,000	4.4
Total throughput	70,930	100.0	68,084	100.0
Production:				
Gasoline	34,025	49.9	33,225	50.7
Distillate	25,994	38.1	24,802	37.8
Other (excluding internally produced fuel)	8,172	12.0	7,574	11.5
Total refining production (excluding internally produced fuel)	68,191	100.0	65,601	100.0
Product price (dollars per gallon):				
Gasoline	\$ 3.02		\$ 2.93	
Distillate	\$ 3.13		\$ 3.08	

Table of Contents**Nitrogen Fertilizer Business Results of Operations**

The tables below provide an overview of the nitrogen fertilizer business' results of operations, relevant market indicators and key operating statistics:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(unaudited)				
(in millions)				
<b>Nitrogen Fertilizer Business Financial Results</b>				
Net sales	\$ 75.0	\$ 77.2	\$ 234.7	\$ 215.3
Cost of product sold(1)	11.3	10.9	34.6	28.2
Direct operating expenses(1)	21.1	20.1	66.4	65.4
Insurance recovery business interruption		(0.5)		(3.4)
Selling, general and administrative	5.1	4.5	18.1	17.6
Depreciation and amortization	5.2	4.7	15.8	13.9
Operating income	\$ 32.3	\$ 37.5	\$ 99.8	\$ 93.6
Adjusted Nitrogen Fertilizer EBITDA(2)	\$ 39.0	\$ 43.3	\$ 121.1	\$ 114.0

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(unaudited)				
<b>Key Operating Statistics</b>				
Production (thousand tons):				
Ammonia (gross produced)(3)	104.2	102.7	302.3	310.4
Ammonia (net available for sale)(3)	29.4	25.9	89.3	89.3
UAN	181.9	185.8	516.5	535.8
Pet coke consumed (thousand tons)	126.9	131.2	377.7	391.0
Pet coke (cost per ton)	\$ 30	\$ 43	\$ 34	\$ 30
Sales (thousand tons)(4):				
Ammonia	30.2	22.6	89.5	83.5
UAN	175.1	179.2	510.5	524.7
Product pricing (plant gate) (dollars per ton)(4):				
Ammonia	\$ 578	\$ 568	\$ 586	\$ 569
UAN	\$ 290	\$ 294	\$ 311	\$ 266
On-stream factor(5):				
Gasification	99.1%	99.2%	97.2%	99.5%
Ammonia	98.4%	98.6%	96.0%	98.0%
UAN	96.9%	97.0%	92.4%	95.9%
Reconciliation of net sales (dollars in millions):				
Sales net plant gate	\$ 68.2	\$ 65.5	\$ 211.1	\$ 187.3
Freight in revenue	6.5	6.0	17.6	16.1
Hydrogen revenue	0.3	5.7	6.0	11.9
Total net sales	\$ 75.0	\$ 77.2	\$ 234.7	\$ 215.3

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Market Indicators</b>				
Natural gas NYMEX (dollars per MMBtu)	\$ 2.89	\$ 4.06	\$ 2.58	\$ 4.21
Ammonia Southern Plains (dollars per ton)	677	619	616	609
UAN Mid Cornbelt (dollars per ton)	356	401	372	373

(1) Amounts are shown exclusive of depreciation and amortization.

(2) Adjusted Nitrogen Fertilizer EBITDA represents operating income adjusted for share-based compensation, major scheduled turnaround expenses, depreciation and amortization and other income (expense). We present Adjusted Nitrogen Fertilizer EBITDA because it is a key measure used in material covenants in the Partnership's credit facility. Adjusted Nitrogen Fertilizer EBITDA is not a recognized term under GAAP and should not be substituted for operating income or net income as a measure of liquidity. Management believes that Adjusted EBITDA provides relevant and useful information that enables investors to better understand and evaluate our liquidity and our compliance with the covenants contained in the Partnership's credit facility. Below is a reconciliation of operating income to Adjusted EBITDA for the nitrogen fertilizer segment for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(unaudited)				
(in millions)				
<b>Nitrogen Fertilizer:</b>				
Nitrogen fertilizer operating income	\$ 32.3	\$ 37.5	\$ 99.8	\$ 93.6
Share-based compensation	1.2	0.9	5.2	6.4
Depreciation and amortization	5.2	4.7	15.8	13.9
Major scheduled turnaround expense	0.2		0.2	
Other income (expense)	0.1	0.2	0.1	0.1
Adjusted Nitrogen Fertilizer EBITDA	\$ 39.0	\$ 43.3	\$ 121.1	\$ 114.0

(3) Gross tons produced for ammonia represent the total ammonia produced, including ammonia produced that was upgraded into UAN. Net tons available for sale represent the ammonia available for sale that was not upgraded into UAN.

(4) Plant gate sales per ton represent net sales less freight and hydrogen revenue divided by product sales volume in tons in the reporting period. Plant gate pricing per ton is shown in order to provide a pricing measure that is comparable across the fertilizer industry.

(5) On-stream factor is the total number of hours operated divided by the total number of hours in the reporting period and is a measure of efficiency.

**Three Months Ended September 30, 2012 Compared to the Three Months Ended September 30, 2011***Consolidated Results of Operations*

## Edgar Filing: CVR ENERGY INC - Form 10-Q

**Net Sales.** Consolidated net sales were \$2,409.6 million for the three months ended September 30, 2012 compared to \$1,352.0 million for the three months ended September 30, 2011. The increase of \$1,057.6 million was due to an increase in petroleum net sales of approximately \$1,052.9 million that resulted primarily from higher sales volume as a result of the acquisition of the Wynnewood refinery in

Table of Contents

December 2011 and an increase in average sales prices of gasoline (up 2.8% to \$3.03 per gallon) and distillate (up 2.6% to \$3.15 per gallon) for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. The increase in petroleum sales was coupled with a decrease in nitrogen fertilizer net sales of \$2.2 million, which was primarily due to lower hydrogen sales and decreased UAN volume and price.

**Cost of Product Sold (Exclusive of Depreciation and Amortization).** Consolidated cost of product sold (exclusive of depreciation and amortization) was \$1,702.5 million for the three months ended September 30, 2012 as compared to \$1,026.0 million for the three months ended September 30, 2011. The increase of \$676.5 million primarily resulted from an increase in throughput and an increase in crude oil prices. The increased crude oil throughput is a result of the inclusion of the Wynnewood refinery. Consumed crude oil cost per barrel increased approximately 0.5% from an average price of \$87.39 per barrel for the three months ended September 30, 2011 to an average price of \$87.80 per barrel for the three months ended September 30, 2012. Additionally, the increase in cost of product sold (exclusive of depreciation and amortization) by the petroleum business was coupled with a slight increase of \$0.4 million associated with the nitrogen fertilizer's third-party cost of product sold (exclusive of depreciation and amortization).

**Direct Operating Expenses (Exclusive of Depreciation and Amortization).** Consolidated direct operating expenses (exclusive of depreciation and amortization) were \$109.9 million for the three months ended September 30, 2012 as compared to \$74.6 million for the three months ended September 30, 2011. This increase of \$35.3 million was due to an increase in petroleum direct operating expenses of \$34.3 million coupled with a small increase in nitrogen fertilizer direct operating expenses of approximately \$1.0 million. The increase was primarily attributable to a full quarter's expenses for our Wynnewood refinery (\$41.1 million) and increases in labor (\$0.9 million), partially offset by decreases in turnaround expenses (\$7.6 million) and environmental expenses (\$2.7 million).

**Selling, General and Administrative Expenses (Exclusive of Depreciation and Amortization).** Consolidated selling, general and administrative expenses (exclusive of depreciation and amortization) were \$30.4 million for the three months ended September 30, 2012 as compared to \$17.7 million for the three months ended September 30, 2011. This \$12.7 million increase was primarily the result of higher payroll-related costs due to growth in staff, integration costs related to GWEC, overall higher costs associated with acquiring GWEC and costs incurred related to the tender offer and transaction agreement with certain entities affiliated with Carl Icahn.

**Interest Expense.** Consolidated interest expense for the three months ended September 30, 2012 was \$18.9 million as compared to interest expense of \$13.8 million for the three months ended September 30, 2011. This \$5.1 million increase resulted primarily from higher interest cost due to the additional \$200.0 million of Notes issued in December 2011 along with increased amortization to interest expense for deferred financing costs and original issue discount associated with the Notes.

**Realized Gain (loss) on Derivatives, net.** For the three months ended September 30, 2012, we recorded an \$53.2 million realized loss on derivatives compared to a \$0.1 million realized gain on derivatives for the three months ended September 30, 2011. The change was primarily attributable to realized losses on our commodity swaps in the Petroleum segment. We entered several over-the-counter commodity swaps to fix the margin on a portion of future gasoline and distillate production beginning in the fourth quarter of 2011. For the three months ended September 30, 2012, the over-the-counter commodity swap positions resulted in a realized loss of \$45.3 million. In addition, there were \$8.0 million in realized losses associated with other commodity derivative activities during the quarter.

**Unrealized loss on Derivatives, net.** For the three months ended September 30, 2012, we recorded a \$115.7 million unrealized loss on derivatives compared to a \$10.0 million unrealized loss on derivatives for the three months ended September 30, 2011. The change was primarily attributable to larger

Table of Contents

unrealized gains on our commodity swaps in the Petroleum segment. We entered several over-the-counter commodity swaps to fix the margin on a portion of future gasoline and distillate production beginning in the fourth quarter of 2011. For the three months ended September 30, 2012, the over-the-counter commodity swap positions resulted in an unrealized loss of \$116.5 million, which was partially offset by \$0.8 million in unrealized gains associated with other commodity derivative activities.

**Income Tax Expense.** Income tax for the three months ended September 30, 2012 was \$127.6 million, or 36.9% of income before income tax expense, as compared to income tax expense of \$68.6 million, or 36.3% of income before income tax expense, for the three months ended September 30, 2011. The Company's effective tax rate for the three months ended September 30, 2012 and 2011 is lower than the expected statutory rate of 39.4% and 39.7%, respectively, primarily due to the reduction of income subject to tax associated with the noncontrolling ownership interest of CVR Partners' earnings, as well as benefits for domestic production activities.

### Petroleum Business Results of Operations for the Three Months Ended September 30, 2012

**Net Sales.** Petroleum net sales were \$2,337.3 million for the three months ended September 30, 2012 compared to \$1,284.4 million for the three months ended September 30, 2011. The increase of \$1,052.9 million was the result of significantly higher overall sales volume and higher product prices. The higher sales volume is due to the inclusion of a full quarter's sales for our Wynnewood refinery for the three months ended September 30, 2012. Our average sales price per gallon for the three months ended September 30, 2012 for gasoline of \$3.03 and distillate of \$3.15 increased by approximately 2.8% and 2.6%, respectively, as compared to the three months ended September 30, 2011.

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011		Total Variance		Price Variance	Volume Variance
	Volume(1) \$ per barrel	Sales \$(2)	Volume(1) \$ per barrel	Sales \$(2)	Volume(1)	Sales \$(2)		
								(in millions)
Gasoline	9.6	\$ 127.27 \$ 1,220.5	5.0	\$ 123.86 \$ 617.8	4.6	\$ 602.7	\$ 32.8	\$ 569.9
Distillate	7.6	\$ 132.18 \$ 1,001.6	4.5	\$ 128.84 \$ 584.9	3.1	\$ 416.7	\$ 25.3	\$ 391.4

(1) Barrels in millions

(2) Sales dollars in millions

**Cost of Product Sold (Exclusive of Depreciation and Amortization).** Cost of product sold (exclusive of depreciation and amortization) includes cost of crude oil, other feedstocks and blendstocks, purchased products for resale, transportation and distribution costs. Petroleum cost of product sold (exclusive of depreciation and amortization) was \$1,694.0 million for the three months ended September 30, 2012 compared to \$1,024.5 million for the three months ended September 30, 2011. The increase of \$669.5 million was primarily the result of an increase in crude oil throughputs and an increase in crude oil prices. The increase in crude oil throughputs is due to the inclusion of a full quarter's consumption at our Wynnewood refinery. Our average cost per barrel of crude oil consumed for the three months ended September 30, 2012 was \$87.80 compared to \$87.39 for the comparable period of 2011, an increase of approximately 0.5%. Sales volume of refined fuels increased by approximately 83.0%. The impact of FIFO accounting also impacted cost of product sold during the comparable periods. Under our FIFO accounting method, changes in crude oil prices can cause fluctuations in the inventory valuation of our crude oil, work in process and finished goods, thereby resulting in a favorable FIFO inventory impact when crude oil prices increase and an unfavorable FIFO inventory impact when crude oil prices decrease. For the three months ended September 30, 2012, we had a favorable FIFO inventory impact of \$50.9 million compared to an unfavorable FIFO inventory impact of \$26.2 million for the comparable period of 2011.



Table of Contents

Refining margin per barrel of crude oil throughput increased from \$25.03 for the three months ended September 30, 2011 to \$36.31 for the three months ended September 30, 2012. Refining margin adjusted for FIFO impact was \$33.44 per crude oil throughput barrel for the three months ended September 30, 2012, as compared to \$27.55 per crude oil throughput barrel for the three months ended September 30, 2011. Gross profit per barrel increased to \$29.75 for the three months ended September 30, 2012 as compared to gross profit per barrel of \$18.14 in the equivalent period in 2011. The increase of our refining margin per barrel is due to an increase in the average sales prices of our produced gasoline and distillates which was partially offset by an increase in our cost of consumed crude oil. Our average sales price of gasoline increased approximately 2.8% and our average sales price for distillates increased approximately 2.6% for the three months ended September 30, 2012 over the comparable period of 2011. Consumed crude oil costs increased due to a 3.0% increase in WTI for the three months ended September 30, 2012 over the three months ended September 30, 2011.

**Direct Operating Expenses (Exclusive of Depreciation and Amortization).** Direct operating expenses (exclusive of depreciation and amortization) for our petroleum operations include costs associated with the actual operations of our refineries, such as energy and utility costs, property taxes, catalyst and chemical costs, repairs and maintenance, labor and environmental compliance costs. Petroleum direct operating expenses (exclusive of depreciation and amortization) plus major scheduled turnaround expenses were \$88.8 million for the three months ended September 30, 2012 compared to direct operating expenses plus major scheduled turnaround expenses of \$54.5 million for the three months ended September 30, 2011. The increase of \$34.3 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 was the result of a full quarter's expenses for our Wynnewood refinery (\$41.1 million) which was partially offset by a decrease in expenses at our Coffeyville refinery of \$6.7 million. The decrease at our Coffeyville refinery is primarily related to turnaround expense (\$7.8 million) and environmental expenses (\$2.7 million). Decreases in direct operating expenses at our Coffeyville refinery were partially offset by increases related to repairs and maintenance (\$1.7 million), production chemicals (\$1.2 million) and labor costs (\$0.9 million). Direct operating expenses per barrel of crude oil throughput for the three months ended September 30, 2012 decreased to \$5.02 per barrel as compared to \$5.25 per barrel for the three months ended September 30, 2011. The decrease in the direct operating expenses per barrel of crude oil throughput is a function of the higher volume of throughput due to the addition of the Wynnewood refinery in 2012.

**Operating Income (loss).** Petroleum operating income was \$507.5 million for the three months ended September 30, 2012 as compared to operating income of \$179.8 million for the three months ended September 30, 2011. This increase of \$327.7 million was the result of an increase in the refining margin (\$383.4 million). The increase in refining margin was partially offset by an increase in direct operating expenses (\$34.3 million), an increase in depreciation and amortization (\$10.5 million) and an increase in selling, general and administrative expenses (\$10.9 million). The increase in depreciation and amortization along with the increase in selling, general and administrative expenses are the result of a full quarter's expense for our Wynnewood refinery.

#### **Nitrogen Fertilizer Business Results of Operations for the Three Months Ended September 30, 2012**

**Net Sales.** Net sales were \$75.0 million for the three months ended September 30, 2012 compared to \$77.2 million for the three months ended September 30, 2011. For the three months ended September 30, 2012, ammonia and UAN made up \$18.1 million and \$56.6 million of our net sales, respectively. This compared to ammonia and UAN net sales of \$13.3 million and \$58.2 million, respectively, for the three months ended September 30, 2011. The decrease of \$2.2 million was the result of lower hydrogen sales combined with decreased UAN sales unit volumes and price, partially offset by higher ammonia sales volumes and prices. The following table demonstrates the impact of

## Edgar Filing: CVR ENERGY INC - Form 10-Q

### Table of Contents

sales volumes and pricing for ammonia, UAN and hydrogen for the quarter ended September 30, 2012 and September 30, 2011:

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011			Total Variance		Price	Volume
	Volume(1)	\$ per ton(2)	Sales \$(3)	Volume(1)	\$ per ton(2)	Sales \$(3)	Volume(1)	Sales \$(3)	Variance	Variance
	(in millions)									
Ammonia	30,197	\$ 601	\$ 18.1	22,606	\$ 589	\$ 13.3	7,591	\$ 4.8	\$ 0.4	\$ 4.4
UAN	175,059	\$ 323	\$ 56.6	179,244	\$ 324	\$ 58.2	(4,185)	\$ (1.6)	\$ (0.2)	\$ (1.4)
Hydrogen	30,809	\$ 9	\$ 0.3	528,593	\$ 11	\$ 5.7	(497,784)	\$ (5.4)	\$	\$ (5.4)

- (1) Ammonia and UAN sales volumes are in tons. Hydrogen sales volumes are in MSCF.
- (2) Includes freight charges
- (3) Sales dollars in millions

The increase in ammonia sales volume for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 was primarily attributable to higher ammonia production resulting from lower hydrogen sales to the refinery. On-stream factors (total number of hours operated divided by total hours in the reporting period) for the gasification, ammonia and UAN units continue to demonstrate their reliability with the units reporting 99.1%, 98.4% and 96.9%, respectively, on-stream for the three months ended September 30, 2012. On-stream rates for the third quarter of 2011 were 99.2%, 98.6% and 97.0%, for the gasification, ammonia and UAN units, respectively.

Plant gate prices are prices at the designated delivery point less any freight cost we absorb to deliver the product. We believe plant gate price is meaningful because we sell products both at our plant gate (sold plant) and delivered to the customer's designated delivery site (sold delivered) and the percentage of sold plant versus sold delivered can change month to month or quarter-to-quarter. The plant gate price provides a measure that is consistently comparable period to period. Average plant gate prices for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 increased 1.8% for ammonia and decreased 1.4% for UAN.

**Cost of Product Sold (Exclusive of Depreciation and Amortization).** Cost of product sold is primarily comprised of pet coke expense, freight expense and distribution expense. Cost of product sold for the three months ended September 30, 2012 was \$11.3 million compared to \$10.9 million for the three months ended September 30, 2011. The increase of \$0.4 million is the result of higher third-party costs of \$0.8 million associated with higher freight costs, distribution costs and lower third-party pet coke costs partially offset by lower affiliate costs of \$0.4 million associated with reduced pet coke volumes from Coffeyville's refinery.

**Direct Operating Expenses (Exclusive of Depreciation and Amortization).** Direct operating expenses include costs associated with the actual operations of our plant, such as repairs and maintenance, energy and utility costs, catalyst and chemical costs, outside services, labor and environmental compliance costs. Direct operating expenses (exclusive of depreciation and amortization) for the three months ended September 30, 2012 were \$21.1 million as compared to \$20.1 million for the three months ended September 30, 2011. This increase was due to the receipt of insurance proceeds in 2011 that did not recur in 2012.

### **Nine Months Ended September 30, 2012 Compared to the Nine Months Ended September 30, 2011**

#### **Consolidated Results of Operations**

**Net Sales.** Consolidated net sales were \$6,686.5 million for the nine months ended September 30, 2012 compared to \$3,966.9 million for the nine months ended September 30, 2011. The increase of

Table of Contents

\$2,719.6 million was due to an increase in petroleum net sales of approximately \$2,693.0 million that resulted primarily from higher sales volume as a result of the acquisition of the Wynnewood refinery in December 2011. The increase in petroleum sales were coupled with an increase in nitrogen fertilizer net sales of \$19.4 million which was primarily due to higher average plant gate prices.

**Cost of Product Sold (Exclusive of Depreciation and Amortization).** Consolidated cost of product sold (exclusive of depreciation and amortization) was \$5,211.9 million for the nine months ended September 30, 2012 as compared to \$3,086.2 million for the nine months ended September 30, 2011. The increase of \$2,125.7 million primarily resulted from an increase in crude oil prices and throughput. The increased crude oil throughput is a result of the inclusion of the Wynnewood refinery. Consumed crude oil cost per barrel increased approximately 1.3% from an average price of \$91.58 per barrel for the nine months ended September 30, 2011 to an average price of \$92.76 per barrel for the nine months ended September 30, 2012. Additionally, the increase in cost of product sold (exclusive of depreciation and amortization) by the petroleum business was coupled with an increase of \$6.4 million associated primarily with the nitrogen fertilizer's third-party cost of product sold (exclusive of depreciation and amortization).

**Direct Operating Expenses (Exclusive of Depreciation and Amortization).** Consolidated direct operating expenses (exclusive of depreciation and amortization) were \$319.5 million for the nine months ended September 30, 2012 as compared to \$209.3 million for the nine months ended September 30, 2011. This increase was due to an increase in petroleum direct operating expenses of \$109.1 million associated with an increase primarily attributable to nine months of expenses for our Wynnewood refinery (\$83.6 million) and increases in expenses associated with turnaround (\$22.6 million), offset by a decrease in other direct operating expenses (\$2.9 million).

**Selling, General and Administrative Expenses (Exclusive of Depreciation and Amortization).** Consolidated selling, general and administrative expenses (exclusive of depreciation and amortization) were \$147.7 million for the nine months ended September 30, 2012 as compared to \$69.0 million for the nine months ended September 30, 2011. This \$78.7 million increase was primarily the result of higher payroll-related costs due to growth in staff, integration costs related to GWEC, overall higher costs associated with acquiring GWEC and costs incurred related to the tender offer and transaction agreement with certain entities affiliated with Carl Icahn.

**Interest Expense.** Consolidated interest expense for the nine months ended September 30, 2012 was \$57.1 million as compared to interest expense of \$41.2 million for the nine months ended September 30, 2011. This \$15.9 million increase resulted primarily from higher interest cost due to the additional \$200.0 million of Notes issued in December 2011 along with increased amortization to interest expense for deferred financing costs and original issue discount associated with the Notes.

**Realized Gain (loss) on Derivatives, net.** For the nine months ended September 30, 2012, we recorded a \$80.4 million realized loss on derivatives compared to an \$18.3 million realized loss on derivatives for the nine months ended September 30, 2011. The change was primarily attributable to realized losses on our commodity swaps in the Petroleum segment. We entered several over-the-counter commodity swaps to fix the margin on a portion of future gasoline and distillate production beginning in the fourth quarter of 2011. For the nine months ended September 30, 2012, the over-the-counter commodity swap positions resulted in a realized loss of \$70.3 million. The remaining \$10.1 million realized loss relates to other commodity derivative activities.

**Unrealized loss on Derivatives, net.** For the nine months ended September 30, 2012, we recorded a \$197.0 million unrealized loss on derivatives compared to a \$6.8 million unrealized loss on derivatives for the nine months ended September 30, 2011. The change was primarily attributable to larger unrealized losses on our commodity swaps in the Petroleum segment. We entered several over-the-counter commodity swaps to fix the margin on a portion of future gasoline and distillate

Table of Contents

production beginning in the fourth quarter of 2011. For the nine months ended September 30, 2012, the over-the-counter commodity swap positions resulted in an unrealized loss of \$196.1 million. The remaining \$0.9 million unrealized loss relates to other commodity derivative activities.

**Income Tax Expense.** Income tax expense for the nine months ended September 30, 2012 was \$209.0 million, or 36.2% of income before income tax expense, as compared to income tax expense of \$172.5 million, or 36.5% of income before income tax expense, for the nine months ended September 30, 2011. The Company's effective tax rate for the nine months ended September 30, 2012 and 2011 is lower than the expected statutory rate of 39.4% and 39.7%, respectively, primarily due to the reduction of income subject to tax associated with the noncontrolling ownership interest of CVR Partners' earnings, as well as benefits for domestic production activities. The impact associated with the noncontrolling interest for the nine months ended September 30, 2011 is less than 2012 due to noncontrolling ownership interest only having an impact beginning with and subsequent to the Partnership's IPO in April 2011.

### Petroleum Business Results of Operations for the Nine Months Ended September 30, 2012

**Net Sales.** Petroleum net sales were \$6,465.3 million for the nine months ended September 30, 2012 compared to \$3,772.3 million for the nine months ended September 30, 2011. The increase of \$2,693.0 million was the result of significantly higher overall sales volume and higher product prices. The higher sales volume is due to the inclusion of a full nine months of sales for our Wynnewood refinery for the nine months ended September 30, 2012. Our average sales price per gallon for the nine months ended September 30, 2012 for gasoline of \$2.93 and distillate of \$3.07 increased by approximately 1.4% and 0.9%, respectively, as compared to the nine months ended September 30, 2011.

	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011			Total Variance		Price Variance	Volume Variance
	Volume(1)	\$ per barrel	Sales \$(2)	Volume(1)	\$ per barrel	Sales \$(2)	Volume(1)	Sales \$(2)		
Gasoline	27.4	\$ 123.18	\$ 3,380.3	15.5	\$ 121.36	\$ 1,880.5	11.9	\$ 1,499.8	\$ 50.0	\$ 1,449.8
Distillate	21.4	\$ 128.98	\$ 2,760.2	13.0	\$ 127.77	\$ 1,667.3	8.4	\$ 1,092.9	\$ 25.9	\$ 1,067.0

(in millions)

(1) Barrels in millions

(2) Sales dollars in millions

**Cost of Product Sold (Exclusive of Depreciation and Amortization).** Cost of product sold (exclusive of depreciation and amortization) includes cost of crude oil, other feedstocks and blendstocks, purchased products for resale, transportation and distribution costs. Petroleum cost of product sold (exclusive of depreciation and amortization) was \$5,190.8 million for the nine months ended September 30, 2012 compared to \$3,077.5 million for the nine months ended September 30, 2011. The increase of \$2,113.3 million was primarily the result of an increase in crude oil throughputs and an increase in crude oil prices. The increase in crude oil throughputs is due to the inclusion of a full nine months of consumption at our Wynnewood refinery. Our average cost per barrel of crude oil consumed for the nine months ended September 30, 2012 was \$92.76 compared to \$91.58 for the comparable period of 2011, an increase of approximately 1.3%. Sales volume of refined fuels increased by approximately 73.4%. The impact of FIFO accounting also impacted cost of product sold during the comparable periods. Under our FIFO accounting method, changes in crude oil prices can cause fluctuations in the inventory valuation of our crude oil, work in process and finished goods, thereby resulting in a favorable FIFO inventory impact when crude oil prices increase and an unfavorable FIFO inventory impact when crude oil prices decrease. For the nine months ended September 30, 2012, we had an unfavorable FIFO inventory impact of \$54.3 million compared to an unfavorable FIFO inventory impact of \$1.5 million for the comparable period of 2011.

Table of Contents

Refining margin per barrel of crude oil throughput increased from \$23.77 for the nine months ended September 30, 2011 to \$26.34 for the nine months ended September 30, 2012. Refining margin adjusted for FIFO impact was \$27.46 per crude oil throughput barrel for the nine months ended September 30, 2012, as compared to \$23.82 per crude oil throughput barrel for the nine months ended September 30, 2011. Gross profit per barrel increased to \$19.45 for the nine months ended September 30, 2012 as compared to gross profit per barrel of \$17.10 in the equivalent period in 2011. The increase of our refining margin per barrel is due to an increase in the average sales prices of our produced gasoline and distillates which was partially offset by an increase in our cost of consumed crude oil. Our average sales price of gasoline increased approximately 1.5% and our average sales price for distillates increased approximately 0.9% for the nine months ended September 30, 2012 over the comparable period of 2011. Consumed crude oil costs increased due to a 0.7% increase in WTI for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011.

**Direct Operating Expenses (Exclusive of Depreciation and Amortization).** Direct operating expenses (exclusive of depreciation and amortization) for our petroleum operations include costs associated with the actual operations of our refineries, such as energy and utility costs, property taxes, catalyst and chemical costs, repairs and maintenance, labor and environmental compliance costs. Petroleum direct operating expenses (exclusive of depreciation and amortization) plus major scheduled turnaround expenses were \$253.1 million for the nine months ended September 30, 2012 compared to direct operating expenses plus major scheduled turnaround expenses of \$144.0 million for the nine months ended September 30, 2011. The increase of \$109.1 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 was the result of a full nine months of expenses for our Wynnewood refinery (\$96.9 million) and an increase at our Coffeyville refinery of \$12.2 million. The increase in expenses at our Coffeyville refinery is primarily related to turnaround expense (\$8.9 million), production chemicals (\$3.4 million) and labor costs (\$3.2 million). Increases in direct operating expenses at our Coffeyville refinery were partially offset by decreases related to repairs and maintenance (\$2.9 million) and other operating expenses (\$0.4 million). Direct operating expenses per barrel of crude oil throughput for the nine months ended September 30, 2012 increased to \$5.23 per barrel as compared to \$4.93 per barrel for the nine months ended September 30, 2011.

**Operating Income (loss).** Petroleum operating income was \$891.2 million for the nine months ended September 30, 2012 as compared to operating income of \$469.0 million for the nine months ended September 30, 2011. This increase of \$422.2 million was the result of an increase in the refining margin (\$579.7 million). The increase in refining margin was partially offset by an increase in direct operating expenses (\$109.1 million), an increase in depreciation and amortization (\$29.5 million) and an increase in selling, general and administrative expenses (\$18.9 million). The increase in depreciation and amortization along with the increase in selling, general and administrative expenses are the result of a full nine months of expense for our Wynnewood refinery.

**Nitrogen Fertilizer Business Results of Operations for the Nine Months Ended September 30, 2012**

**Net Sales.** Net sales were \$234.7 million for the nine months ended September 30, 2012 compared to \$215.3 million for the nine months ended September 30, 2011. For the nine months ended September 30, 2012, ammonia and UAN made up \$54.2 million and \$174.5 million of our net sales, respectively. This compared to ammonia and UAN net sales of \$49.0 million and \$154.4 million, respectively, for the nine months ended September 30, 2011. The increase of \$19.4 million was the result of both higher average plant gate prices for both ammonia and UAN and higher sales unit volumes for ammonia, partially offset by lower sales unit volumes for UAN and reduced hydrogen sales to Coffeyville's refinery. The following table demonstrates the impact of sales volumes and pricing for ammonia, UAN and hydrogen for the quarter ended September 30, 2012 and September 30, 2011:

## Edgar Filing: CVR ENERGY INC - Form 10-Q

### Table of Contents

	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011			Total Variance			
	Volume(1)	\$ per ton(2)	Sales \$(3)	Volume(1)	\$ per ton(2)	Sales \$(3)	Volume(1)	Sales \$(3)	Price Variance	Volume Variance
	(in millions)									
Ammonia	89,477	\$ 605	\$ 54.2	83,510	\$ 587	\$ 49.0	5,967	\$ 5.2	\$ 1.7	\$ 3.5
UAN	510,520	\$ 342	\$ 174.5	524,670	\$ 294	\$ 154.4	(14,150)	\$ 20.1	\$ 24.3	\$ (4.2)
Hydrogen	593,466	\$ 10	\$ 6.0	1,159,090	\$ 10	\$ 11.8	(565,624)	\$ (5.8)	\$ (0.1)	\$ (5.7)

(1) Ammonia and UAN sales volumes are in tons. Hydrogen sales volumes are in MSCF.

(2) Includes freight charges

(3) Sales dollars in millions

On-stream factors (total number of hours operated divided by total hours in the reporting period) for the gasification, ammonia and UAN units continue to demonstrate their reliability with the units reporting 97.2%, 96.0% and 92.4%, respectively, on-stream for the nine months ended September 30, 2012. On-stream rates for the nine months ended September 30, 2011 were 99.5%, 98.0% and 95.9% for the gasification, ammonia and UAN units, respectively. Lower on-stream factors were the result of downtime related to repairs for each of the units. This downtime resulted in decreased UAN production and related reduced sales volumes.

Plant gate prices are prices at the designated delivery point less any freight cost we absorb to deliver the product. We believe plant gate price is meaningful because we sell products both at our plant gate (sold plant) and delivered to the customer's designated delivery site (sold delivered) and the percentage of sold plant versus sold delivered can change month to month or quarter-to-quarter. The plant gate price provides a measure that is consistently comparable period to period. Average plant gate prices for the nine months ended September 30, 2012 were higher for both ammonia and UAN over the comparable period of 2011, increasing 3.0% and 16.7%, respectively. The price increases reflect strong farm belt market conditions.

**Cost of Product Sold (Exclusive of Depreciation and Amortization).** Cost of product sold is primarily comprised of pet coke expense, freight expense and distribution expense. Cost of product sold for the nine months ended September 30, 2012 was \$34.6 million compared to \$28.2 million for the nine months ended September 30, 2011. The increase of \$6.4 million is the result of higher third-party costs of \$5.6 million associated with increased freight costs and higher third-party pet coke costs and higher affiliate costs of \$0.8 million associated with higher pet coke costs and increased distribution costs, partially offset by lower hydrogen costs.

**Direct Operating Expenses (Exclusive of Depreciation and Amortization).** Direct operating expenses include costs associated with the actual operations of our plant, such as repairs and maintenance, energy and utility costs, catalyst and chemical costs, outside services, labor and environmental compliance costs. Direct operating expenses (exclusive of depreciation and amortization) for the nine months ended September 30, 2012 of \$66.4 million were comparable to \$65.4 million for the nine months ended September 30, 2011.

### **Liquidity and Capital Resources**

Our primary sources of liquidity currently consist of cash generated from our operating activities, existing cash and cash equivalent balances, our working capital, our ABL credit facility and CRNF's credit facility. Our ability to generate sufficient cash flows from our operating activities will continue to be primarily dependent on producing or purchasing, and selling, sufficient quantities of refined petroleum and nitrogen fertilizer products at margins sufficient to cover fixed and variable expenses.

We believe that our cash flows from operations and existing cash and cash equivalents and improvements in our working capital, together with borrowings under our existing credit facilities as

Table of Contents

necessary, will be sufficient to satisfy the anticipated cash requirements associated with our existing operations for at least the next twelve months. However, our future capital expenditures and other cash requirements could be higher than we currently expect as a result of various factors. Additionally, our ability to generate sufficient cash from our operating activities depends on our future performance, which is subject to general economic, political, financial, competitive, and other factors beyond our control. Depending on the needs of our business contractual limitations and market conditions, we may from time to time seek to use equity securities, incur additional debt, modify the terms of our existing debt, issue debt securities, or otherwise refinance our existing debt. There can be no assurance that we will seek to do any of the foregoing or that we will be able to do any of the foregoing on terms acceptable to us or at all.

***Cash Balance and Other Liquidity***

As of September 30, 2012, we had cash and cash equivalents of \$988.2 million. As of September 30, 2012, we had no amounts outstanding and availability of \$372.8 million under our ABL credit facility. Our availability under the ABL credit facility is reduced by outstanding letters of credit which, as of September 30, 2012 was \$27.2 million. As of October 31, 2012, we had \$372.8 million available under the ABL credit facility and CRNF had \$25.0 million of availability under the credit facility. As of October 31, 2012, the Partnership had cash and cash equivalents of approximately \$172.0 million and we had cash and cash equivalents (exclusive of the Partnership) of approximately \$1,015.7 million.

The Partnership has a distribution policy in which it will generally distribute all of its available cash each quarter, within 45 days after the end of each quarter. The distributions will be made to all common unitholders. CRLLC currently holds approximately 70% of all common units outstanding. The amount of the distribution will be determined pursuant to the general partner's calculation of available cash for the applicable quarter. The general partner, as a non-economic interest holder, is not entitled to receive cash distributions. As a result of the general partner's distribution policy, funds held by the Partnership will not be available for CRLLC's use, and CRLLC as a unitholder will receive its applicable percentage of the distribution of funds within 45 days following each quarter. The Partnership does not have a legal obligation to pay distributions and there is no guarantee that it will pay any distributions on the units in any quarter.

***Senior Secured Notes***

On April 6, 2010, CRLLC and its wholly-owned subsidiary, Coffeyville Finance Inc. (together the "Issuers"), completed the private offering of \$275.0 million aggregate principal amount of 9.0% First Lien Senior Secured Notes due April 1, 2015 (the "First Lien Notes") and \$225.0 million aggregate principal amount of 10.875% Second Lien Senior Secured Notes due April 1, 2017 (the "Second Lien Notes" and together with the First Lien Notes, the "Notes"). The First Lien Notes were issued at 99.511% of their principal amount and the Second Lien Notes were issued at 98.811% of their principal amount. On December 30, 2010, we made a voluntary unscheduled principal payment of \$27.5 million on our First Lien Notes. As a result of this payment, we were required to pay a 3.0% premium totaling approximately \$0.8 million. Additionally, an adjustment was made to our previously deferred financing costs, underwriting discount and original issue discount of approximately \$0.8 million. The premium payment and write-off of previously deferred financing costs, underwriting discount and original issue discount were recognized as a loss on extinguishment of debt. On May 16, 2011, we repurchased \$2.7 million of the Notes at a purchase price of 103% of the outstanding principal amount, as discussed below in further detail. On December 15, 2011, we issued an additional \$200.0 million of our First Lien Notes to partially fund the Wynnewood Acquisition. These additional First Lien Notes were issued at 105% of their principal amount. As of September 30, 2012, the Notes had an aggregate principal balance of \$669.8 million and a net carrying value of \$674.5 million.

On

Table of Contents

October 23, 2012, we repurchased approximately \$323.0 million of our First Lien Notes pursuant to a tender offer and issued a notice of redemption to redeem the remaining \$124.1 million of outstanding First Lien Notes not tendered, on November 23, 2012.

The First Lien Notes were issued pursuant to an indenture (the "First Lien Notes Indenture"), dated April 6, 2010, among the Issuers, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (the "First Lien Notes Trustee"). The Second Lien Notes were issued pursuant to an indenture (the "Second Lien Notes Indenture" and together with the First Lien Notes Indenture, the "Indentures"), dated April 6, 2010, among the Issuers, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (the "Second Lien Notes Trustee" and in reference to the Indentures, the "Trustee"). The Notes are fully and unconditionally guaranteed by each of the Company's subsidiaries that also guarantee the ABL credit facility (the "Guarantors" and, together with the Issuers, the "Credit Parties"). The Partnership and CRNF do not guarantee the Notes.

The First Lien Notes bear interest at a rate of 9.0% per annum and mature on April 1, 2015, unless earlier redeemed or repurchased by the Issuers. The Second Lien Notes bear interest at a rate of 10.875% per annum and mature on April 1, 2017, unless earlier redeemed or repurchased by the Issuers. Interest is payable on the Notes semi-annually on April 1 and October 1 of each year, to holders of record at the close of business on March 15 and September 15, as the case may be, immediately preceding each such interest payment date.

On or after April 1, 2012, some or all of the First Lien Notes may be redeemed at a redemption price of (i) 106.750% of the principal amount thereof, if redeemed during the twelve-month period beginning on April 1, 2012; (ii) 104.500% of the principal amount thereof, if redeemed during the twelve-month period beginning on April 1, 2013; and (iii) 100% of the principal amount, if redeemed on or after April 1, 2014, in each case, plus any accrued and unpaid interest.

The Issuers have the right to redeem the Second Lien Notes at the redemption prices set forth below:

On or after April 1, 2013, some or all of the Second Lien Notes may be redeemed at a redemption price of (i) 108.156% of the principal amount thereof, if redeemed during the twelve-month period beginning on April 1, 2013; (ii) 105.438% of the principal amount thereof, if redeemed during the twelve-month period beginning on April 1, 2014; (iii) 102.719% of the principal amount thereof, if redeemed during the twelve-month period beginning on April 1, 2015; and (iv) 100% of the principal amount if redeemed on or after April 1, 2016, in each case, plus any accrued and unpaid interest;

Prior to April 1, 2013, up to 35% of the Second Lien Notes may be redeemed with the proceeds from certain equity offerings at a redemption price of 110.875% of the principal amount thereof, plus any accrued and unpaid interest; and

Prior to April 1, 2013, some or all of the Second Lien Notes may be redeemed at a price equal to 100% of the principal amount thereof, plus a make-whole premium and any accrued and unpaid interest.

In the event of a "change of control" as defined in the Indentures, the Issuers are required to offer to buy back all of the Notes at 101% of their principal amount. A change of control is generally defined as (1) the direct or indirect sale or transfer (other than by a merger) of "all or substantially all of the assets of the Company" to any person other than permitted holders, (as defined in the Indenture), (2) the liquidation or dissolution of CRLLC, (3) any person, other than a permitted holder, directly or indirectly acquiring 50% of the voting stock of CRLLC or (4) the first day when a majority of the directors of CRLLC or CVR Energy are not Continuing Directors (as defined in the Indentures). Continuing Directors are generally our existing directors and directors approved by the then-Continuing Directors.



Table of Contents

The definition of "change of control" specifically excludes a transaction where CVR Energy becomes a subsidiary of another company, so long as (1) CVR Energy's stockholders own a majority of the surviving parent or (2) no one person owns a majority of the common stock of the surviving parent following the merger.

The Icahn change of control required the Issuers to make an offer to repurchase all of the Issuers' outstanding Notes. On June 4, 2012, the Issuers offered to purchase all or any part of the Notes, at a cash purchase price of 101.0% of the aggregate principal amount of the Notes, plus accrued and unpaid interest, if any. The offer expired on July 5, 2012 with none of the outstanding Notes tendered.

The Indentures also allow the Company to sell, spin-off or complete an initial public offering of the Partnership, as long as the Issuers offer to buy back a percentage of the Notes as described in the Indentures. In April 2011, the Partnership completed an initial public offering of common units. This offering triggered a Fertilizer Business Event (as defined in the Indentures). As a result, the Issuers were required to offer to purchase a portion of the Notes from holders at a purchase price equal to 103.0% of the principal amount plus accrued and unpaid interest. A Fertilizer Business Event Offer (as defined in the Indentures) was made on April 14, 2011 to purchase up to \$100.0 million of the First Lien Notes and the Second Lien Notes. Holders of \$2.7 million of the Notes tendered their Notes to the Company. CRLLC repurchased the Notes in accordance with the terms of the tender offer.

The Indentures impose covenants that restrict the ability of the Credit Parties to (i) incur debt, (ii) incur or otherwise cause liens to exist on any of their property or assets, (iii) declare or pay dividends, repurchase equity, or make payments on subordinated or unsecured debt, (iv) make certain investments, (v) sell certain assets, (vi) merge, consolidate with or into another entity, or sell all or substantially all of their assets, and (vii) enter into certain transactions with affiliates. Most of the foregoing covenants would cease to apply at such time that the Notes are rated investment grade by both S&P and Moody's. However, such covenants would be reinstated if the Notes subsequently lost their investment grade rating. In addition, the Indentures contain customary events of default, the occurrence of which would result in, or permit the Trustee or holders of at least 25% of the First Lien Notes or Second Lien Notes to cause, the acceleration of the applicable Notes, in addition to the pursuit of other available remedies. We were in compliance with the covenants as of September 30, 2012.

The obligations of the Credit Parties under the Notes and the guarantees are secured by liens on substantially all of the Credit Parties' assets. The First Lien Notes are secured by first-priority liens on our fixed assets and a second priority lien on our inventory. The liens granted in connection with the Second Lien Notes rank junior to the liens in respect of the First Lien Notes.

***6.500% Second Lien Senior Secured Notes***

On October 23, 2012, CVR Refining, LLC ("Refining LLC") and its wholly-owned subsidiary, Coffeyville Finance Inc. (collectively, the "New Issuers"), completed a private offering of \$500.0 million in aggregate principal amount of 6.500% Second Lien Senior Secured Notes due 2022 (the "2022 Notes"). The 2022 Notes were issued at par. Refining LLC received approximately \$492.5 million of cash proceeds, net of the underwriting fees, but before deducting other third-party fees and expenses associated with the offering.

A portion of the net proceeds from the offering approximating \$348.1 million were used to purchase approximately \$323.0 million of the First Lien Notes pursuant to a tender offer and to settle accrued interest of approximately \$1.8 million through October 23, 2012 and to pay related fees and expenses. Tendered notes were purchased at a premium of approximately \$23.3 million in aggregate amount. CRLLC intends to use the remaining proceeds from the offering to either (1) purchase the remaining \$124.1 million of existing First Lien Notes, if any, tendered in the tender offer by November 5, 2012 or (2) redeem any remaining non-tendered First Lien Notes on November 23, 2012

Table of Contents

pursuant to a notice of redemption issued on October 23, 2012. Any remaining proceeds will be used for general corporate purposes.

As a result of these transactions, a write-off of previously deferred financing charges estimated at approximately \$8.4 million will be recorded in the fourth quarter of 2012. Additionally, the tendered and redeemed First Lien Notes have an unamortized original issuance premium of approximately \$6.6 million, which will reduce the loss on extinguishment of debt recorded in the fourth quarter. The total premiums expected to be paid in conjunction with both the tender offer and the redemption of the First Lien Notes are anticipated to be approximately \$31.7 million. This will be recorded as a loss on extinguishment of debt in the fourth quarter of 2012.

The debt issuance costs of the 2022 Notes will be amortized over the term of the 2022 Notes as interest expense using the effective-interest amortization method. Interest on the 2022 Notes is paid semiannually in arrears on May 1 and November 1 to holders of record at the close of business on April 15 and October 15 each year commencing on May 1, 2013.

The 2022 Notes will be secured by substantially the same assets that secure the outstanding Second Lien Notes, subject to exceptions, until such time that the outstanding Second Lien Notes have been discharged in full.

The 2022 Notes are guaranteed by Refining LLC and its existing domestic subsidiaries. Prior to the redemption, repurchase or other discharge in full of the existing Second Lien Notes, the 2022 Notes will also be guaranteed by Coffeyville Resources. CVR Energy and CVR Partners, LP and its subsidiary are not guarantors.

The 2022 Notes mature on November 1, 2022. At any time prior to November 1, 2017 the New Issuers may redeem all or a portion of the 2022 Notes at the "make-whole" redemption price plus any accrued and unpaid interest. In addition, prior to November 1, 2015, the New Issuers at their option, may redeem up to 35% of the aggregate principal amount of the 2022 Notes at 106.5% of the principal amount with the net proceeds of a public or private equity offering. On or after November 1, 2017, the New Issuers may redeem all or a portion of the 2022 Notes at the redemption prices set forth below (expressed as percentages of principal amount), plus any accrued and unpaid interest, if any, redeemed during the twelve month period beginning November 1 of the years indicated below:

<b>Year</b>	<b>Percentage</b>
2017	103.250%
2018	102.167%
2019	101.083%
2020 and thereafter	100.000%

In the event of a "change of control" as defined in the indenture governing the 2022 Notes, the New Issuers are required to offer to buy back all of the 2022 Notes at 101% of their principal amount. A change of control is generally defined as (1) the direct or indirect sale or transfer (other than by a merger) of "all or substantially all of the assets of Refining LLC" to any person other than Qualifying Owners (as defined in the indenture), (2) liquidation or dissolution of Refining LLC, or (3) any person, other than a Qualifying Owner, directly or indirectly acquiring 50% of the voting stock of Refining LLC.

The indenture governing the 2022 Notes restricts the ability of Refining LLC and its restricted subsidiaries to: (i) incur additional debt or enter into sale and leaseback transactions; (ii) pay distributions on, or repurchase, equity interests; (iii) make certain investments; (iv) incur liens; (v) enter into transactions with affiliates; (vi) merge or consolidate with another company; and (vii) transfer and sell assets. These covenants are subject to a number of important exceptions and qualifications. If at any time the 2022 Notes are rated investment grade by each of Moody's Investors Service, Inc. and

Table of Contents

Standard & Poor's Ratings Services and no Default (as defined in the indenture) has occurred and is continuing, many of these restrictive covenants will terminate. However, such covenants would be reinstated if the 2022 Notes subsequently lost their investment grade rating. The indenture also includes customary events of default.

***Asset-Backed (ABL) Credit Facility***

CRLLC entered into a \$250.0 million ABL credit facility on February 22, 2011, which was expanded to \$400.0 million on December 15, 2011 in connection with the Wynnewood Acquisition. The ABL credit facility provides for borrowings, letter of credit issuances and a feature that permits an increase of borrowings up to an additional \$100.0 million (in the aggregate) subject to additional lender commitments. The ABL credit facility is scheduled to mature in August 2015 and will be used to finance ongoing working capital, capital expenditures, letter of credit issuances and general needs of the Company and includes, among other things, a letter of credit sublimit equal to 90% of the total commitment. As of September 30, 2012, CRLLC had availability under the ABL credit facility of \$372.8 million and had letters of credit outstanding of approximately \$27.2 million. There were no borrowings outstanding under the ABL credit facility as of September 30, 2012.

Borrowings under the facility bear interest based on a pricing grid determined by the previous quarter's excess availability. The pricing for borrowings under the ABL credit facility can range from LIBOR plus a margin of 2.75% to LIBOR plus 3.0% or the prime rate plus 1.75% to prime rate plus 2.0% for Base Rate Loans. Availability under the ABL credit facility is determined by a borrowing base formula supported primarily by cash and cash equivalents, certain accounts receivable and inventory.

Under its terms, the lenders under the ABL credit facility were granted a perfected, first priority security interest (subject to certain customary exceptions) in the ABL Priority Collateral (as defined in the ABL Intercreditor Agreement) and a second priority lien (subject to certain customary exceptions) and security interest in the Note Priority Collateral (as defined in the ABL Intercreditor Agreement).

The ABL credit facility also contains customary covenants for a financing of this type that limit, subject to certain exceptions, the incurrence of additional indebtedness, creation of liens on assets and the ability to dispose assets, make restricted payments, investments or acquisitions, enter into sales lease back transactions or enter into affiliate transactions. The facility also contains a fixed charge coverage ratio financial covenant that is triggered when borrowing base excess availability is less than certain thresholds, as defined under the facility. We were in compliance with the covenants of the ABL credit facility as of September 30, 2012.

In connection with the Icahn change in control described above, CRLLC, Deutsche Bank Trust Company Americas, as Administrative Agent and Collateral Agent, the lenders and the other parties thereto, entered into a First Amendment to Credit Agreement effective as of May 7, 2012 (the "ABL First Amendment"), pursuant to which the parties agreed to exclude Icahn's acquisition of Shares from the definition of change of control as provided in the ABL Credit Agreement, dated as of February 22, 2011, by and among the parties thereto (the "ABL Credit Agreement"). Absent the ABL First Amendment, the change in control of the Company described above would have triggered an event of default pursuant to the ABL Credit Agreement.

***Partnership Credit Facility***

On April 13, 2011, CRNF, as borrower, and the Partnership, as guarantor, entered into a new credit facility (the "Partnership credit facility") with a group of lenders including Goldman Sachs Lending Partners LLC, as administrative and collateral agent. The Partnership credit facility includes a term loan facility of \$125.0 million and a revolving credit facility of \$25.0 million with an uncommitted incremental facility of up to \$50.0 million. There is no scheduled amortization and the Partnership credit facility matures in April 2016.

Table of Contents

Borrowings under the Partnership credit facility bear interest based on a pricing grid determined by the trailing four quarter leverage ratio. The initial pricing for Eurodollar rate loans under the Partnership credit facility is the Eurodollar rate plus a margin of 3.50%, or for base rate loans, or the prime rate plus 2.50%. Under its terms, the lenders under the Partnership credit facility were granted a perfected, first priority security interest (subject to certain customary exceptions) in substantially all of the assets of CRNF and the Partnership and all of the capital stock of CRNF and each domestic subsidiary owned by the Partnership or CRNF. CRNF is the borrower under the Partnership credit facility. All obligations under the Partnership credit facility are unconditionally guaranteed by the Partnership and substantially all of its future, direct and indirect, domestic subsidiaries. Borrowings under the credit facility are non-recourse to the Company and its direct subsidiaries.

As of September 30, 2012, no amounts were drawn under the Partnership's \$25.0 million revolving credit facility.

The acquisition of common stock of CVR Energy by Carl Icahn and related entities and a change of control at CVR Energy did not trigger an event of default under the Partnership credit facility. However, an event of default will be triggered if CVR Energy or any of its subsidiaries (other than the Partnership and CRNF) terminates or violates any of its covenants in any of the intercompany agreements between the Partnership and CVR Energy and its subsidiaries (other than the Partnership and CRNF) and such action has a material adverse effect on the Partnership. If an event of default occurs, the administrative agent under the Partnership credit facility would be entitled to take various actions, including the acceleration of amounts due under the credit facility and all actions permitted to be taken by a secured creditor.

***Partnership Interest Rate Swap***

Our and the Partnership's profitability and cash flows are affected by changes in interest rates on our credit facility borrowings, specifically LIBOR and prime rates. The primary purpose of our interest rate risk management activities is to hedge our and the Partnership's exposure to changes in interest rates by using interest rate derivatives to convert some or all of the interest rates we pay on our borrowings from a floating rate to a fixed interest rate.

On June 30 and July 1, 2011, the Partnership's CRNF subsidiary entered into two Interest Rate Swap agreements with J. Aron. We have determined that the Interest Rate Swaps qualify as a hedge for hedge accounting treatment. These Interest Rate Swap agreements commenced on August 12, 2011. The impact recorded for the three months ended September 30, 2012 and 2011 is \$0.2 million and \$0.1 million, respectively, in interest expense. The impact recorded for the nine months ended September 30, 2012 and 2011 is \$0.7 million and \$0.1 million, respectively, in interest expense. For the three months ended September 30, 2012 and 2011, the Partnership recorded losses of \$0.1 million and \$2.4 million, respectively, in fair market value on the Interest Rate Swap agreements. For the nine months ended September 30, 2012 and 2011, the Partnership recorded losses of \$0.6 million and \$2.4 million, respectively, in the fair market value on the Interest Rate Swap agreements. The combined fair market value of the interest rate swaps recorded in current and non-current liabilities is \$3.0 million. This amount is unrealized and included in accumulated other comprehensive income.

***Capital Spending***

We divide our and the Partnership's capital spending needs into two categories: maintenance and growth. Maintenance capital spending includes only non-discretionary maintenance projects and projects required to comply with environmental, health and safety regulations. We undertake discretionary capital spending based on the expected return on incremental capital employed. Discretionary capital projects generally involve an expansion of existing capacity, improvement in

## Edgar Filing: CVR ENERGY INC - Form 10-Q

### Table of Contents

product yields, and/or a reduction in direct operating expenses. Major scheduled turnaround expenses are expensed when incurred.

The following table summarizes our total actual capital expenditures for the nine months ended September 30, 2012 by operating segment and major category:

	<b>Nine Months Ended September 30, 2012</b> (in millions)
<b>Petroleum Business:</b>	
<i>Coffeyville refinery:</i>	
Maintenance	\$ 33.7
Growth	1.9
Coffeyville refinery total capital excluding turnaround expenditures	
	35.6
<i>Wynnewood refinery:</i>	
Maintenance	25.7
Growth	0.4
Wynnewood refinery total capital excluding turnaround expenditures	
	26.1
<i>Other Petroleum:</i>	
Maintenance	4.8
Growth	16.1
Other petroleum total capital excluding turnaround expenditures	
	20.9
Petroleum business total capital excluding turnaround expenditures	
	82.6
<b>Nitrogen Fertilizer Business (the Partnership):</b>	
Maintenance	3.1
Growth	54.3
Nitrogen fertilizer business total capital excluding turnaround expenditures	
	57.4
<b>Corporate</b>	
	5.1
<b>Total capital spending</b>	<b>\$ 145.1</b>

We expect the petroleum business to spend approximately \$160.0 million to \$165.0 million (not including capitalized interest) on capital expenditures in 2012. Of this amount \$60.0 million to \$65.0 million is expected to be spent for the Coffeyville refinery which includes approximately \$55.0 million to \$60.0 million of maintenance capital. Approximately \$70.0 million to \$80.0 million is expected to be spent on capital for the Wynnewood refinery. Included in the petroleum business expected capital spend is approximately \$15.0 million for further expansion of tank storage in Cushing, Oklahoma. We also expect to spend approximately \$5.0 million associated with corporate related projects.

During the first quarter of 2012, the Coffeyville refinery completed the second phase of a planned two-phase turnaround. We incurred total major scheduled turnaround expenses of approximately \$21.2 million in connection with the turnaround in 2012. The Wynnewood refinery is scheduled to begin turnaround maintenance in the fourth quarter of 2012. We expect to incur approximately \$100.0 million of expenses during 2012 related to the Wynnewood refinery. Turnaround expenditures are not included in capital spending summarized above.

The nitrogen fertilizer business expects to spend \$90.0 million to \$105.0 million on capital expenditures in 2012, excluding capitalized interest. Of this amount, \$6.5 million to \$8.0 million will be

Table of Contents

spent on maintenance projects and \$85.0 million to \$95.0 million will be spent on growth projects including \$75.0 million to \$80.0 million on the UAN expansion project.

Using a portion of the proceeds of the Partnership's Initial Public Offering and term loan borrowings, the Partnership moved forward with the UAN expansion project, which will allow them the flexibility to upgrade all of their ammonia production to UAN. Inclusive of capital spent prior to the Initial Public Offering, the Partnership now anticipates that the total capital spend associated with the UAN expansion will approximate \$125.0 million. As of September 30, 2012, approximately \$92.8 million had been spent, including \$49.2 million which was spent during the nine months ended September 30, 2012. It is anticipated that the UAN expansion will be completed by January 1, 2013.

In October 2011, the board of directors of the general partner of the Partnership approved a UAN terminal project for the construction of a two million gallon UAN storage tank and related truck and rail car load-out facilities that will be located in Phillipsburg, Kansas. The purpose of the UAN terminal is to distribute approximately 20,000 tons of UAN fertilizer annually. The UAN terminal is substantially complete and is currently operational at an estimated cost of approximately \$1.9 million.

Our estimated capital expenditures are subject to change due to unanticipated increases/decreases in the cost, scope and completion time for our capital projects. For example, we may experience increases/decreases in labor or equipment costs necessary to comply with government regulations or to complete projects that sustain or improve the profitability of our refineries or nitrogen fertilizer plant. Capital spending for the nitrogen fertilizer business has been and will be determined by the board of directors of the general partner of the Partnership.

**Cash Flows**

The following table sets forth our cash flows for the periods indicated below:

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	
	<b>(in millions)</b>	
Net cash provided by (used in):		
Operating activities	\$ 783.8	\$ 345.9
Investing activities	(143.6)	(43.8)
Financing activities	(40.3)	396.3
Net increase in cash and cash equivalents	\$ 599.9	\$ 698.4

***Cash Flows Provided by Operating Activities***

For purposes of this cash flow discussion, we define trade working capital as accounts receivable, inventory and accounts payable. Other working capital is defined as all other current assets and liabilities except trade working capital.

Net cash flows provided by operating activities for the nine months ended September 30, 2012 were \$783.8 million. The positive net cash flow from operating activities was primarily driven by net income before noncontrolling interest of \$367.8 million, which was primarily the result of higher operating margins. This positive operating cash flow from net income was coupled with a favorable change in other working capital, offset by unfavorable changes in trade working capital. Trade working capital for the nine months ended September 30, 2012 resulted in a cash outflow of \$28.9 million as a result of a decrease in accounts payable (\$42.8 million) coupled with an increase in accounts receivable (\$98.0 million), offset by a decrease in inventories (\$111.9 million). Significant uses of cash for the nine

Table of Contents

months ended September 30, 2011 also included payments of income tax of approximately \$109.9 million.

Net cash flows provided by operating activities for the nine months ended September 30, 2011 was \$345.9 million. The positive cash flow from operating activities generated over this period was primarily driven by \$300.2 million of net income before noncontrolling interest. This positive net income was primarily indicative of the operating margins for the period. The positive operating cash flow for the period was offset by unfavorable changes in trade working capital. Trade working capital for the nine months ended September 30, 2011 resulted in a reduction of cash flows of \$54.3 million which was primarily attributable to the increase in inventories (\$61.8 million) and an increase in accounts receivable (\$3.4 million), both of which were partially offset by an increase in accounts payable of \$10.8 million. Other working capital activities resulted in net cash outflow of \$38.5 million and are primarily related to an increase in prepaid expenses and other current assets (\$17.6 million) and a decrease in accrued income taxes (\$17.3 million). Significant uses of cash for the nine month ended September 30, 2011 included payments of income tax of approximately \$152.1 million.

*Cash Flows Used in Investing Activities*

Net cash used in investing activities for the nine months ended September 30, 2012 was \$143.6 million compared to \$43.8 million for the nine months ended September 30, 2011. The increase in investing activities was primarily the result of an increase in capital expenditures of \$98.4 million. The petroleum business' capital expenditures increased \$49.2 million for the nine months ended September 30, 2012 compared to the same period in 2011 primarily due to projects at the Coffeyville refinery, construction of crude oil storage in Cushing, Oklahoma and incremental capital spending incurred for the Wynnewood refinery. This increase was coupled with an increase of \$46.9 million in nitrogen fertilizer capital expenditures primarily related to the UAN plant expansion.

*Cash Flows Used in Financing Activities*

Net cash used in financing activities for the nine months ended September 30, 2012 was \$40.3 million as compared to \$396.3 million provided by financing activities for the nine months ended September 30, 2011. During the nine months ended September 30, 2012, we paid a cash distribution to noncontrolling interest holders of the Partnership totaling \$37.8 million. Additionally, financing costs of approximately \$2.0 million were paid during the period associated with increasing the borrowing capacity of the ABL credit facility and the issuance of additional notes in December 2011.

Net cash provided by financing activities for the nine months ended September 30, 2011 was approximately \$396.3 million. The net cash provided by financing activities for the nine months ended September 30, 2011 was primarily attributable to the net proceeds received of \$324.9 million from the Partnership IPO. Additionally, \$125.0 million of proceeds was received by the Partnership from the issuance of long-term debt. These proceeds were partially offset by cash outflows of \$26.0 million by the Partnership to purchase the managing general partner's incentive distribution rights. Financing costs of approximately \$10.7 million were also paid during the period and were primarily associated with the ABL credit facility and the credit facility of CRNF. We repurchased \$2.7 million of our Notes in accordance with the terms of a tender offer associated with the Partnership IPO. Additionally, we paid approximately \$4.9 million toward our capital lease obligations primarily related to exercising our purchase option related to a corporate asset.

For the nine months ended September 30, 2012, there were no borrowings or repayments under our ABL credit facility or Partnership credit facility. As of September 30, 2012, there were no short-term borrowings outstanding under our ABL credit facility.

Table of Contents**Capital and Commercial Commitments**

In addition to long-term debt, we are required to make payments relating to various types of obligations. The following table summarizes our minimum payments as of September 30, 2012 relating to the Notes, operating leases, capital lease obligations, unconditional purchase obligations and other specified capital and commercial commitments for the period following September 30, 2012 and thereafter. As of September 30, 2012, there were no amounts outstanding under the ABL credit facility. The following table assumes no borrowings are made under the ABL credit facility.

	Total	Payments Due by Period					Thereafter
		2012	2013	2014	2015	2016	
(in millions)							
<b>Contractual Obligations</b>							
Long-term debt(1)	\$ 794.8	\$	\$	\$	\$ 447.1	\$ 125.0	\$ 222.7
Operating leases(2)	41.3	2.6	9.8	7.8	6.3	5.5	9.3
Capital lease obligations(3)	52.5	0.4	1.1	1.2	1.4	1.6	46.8
Unconditional purchase obligations(4)	932.9	32.2	126.7	113.7	103.2	96.6	460.5
Environmental liabilities(5)	1.8	0.1	0.2	0.2	0.2	0.1	1.0
Interest payments(6)	186.4	16.2	24.2	64.5	44.9	24.2	12.4
Total	\$ 2,009.7	\$ 51.5	\$ 162.0	\$ 187.4	\$ 603.1	\$ 253.0	\$ 752.7
<b>Other Commercial Commitments</b>							
Standby letters of credit(7)	\$ 27.2	\$	\$	\$	\$	\$	\$

- (1) The Company issued the Notes in an aggregate principal amount of \$500.0 million on April 6, 2010. The First Lien Notes and Second Lien Notes bear an interest rate of 9.0% and 10.875% per year, respectively, payable semi-annually. The First Lien Notes mature on April 1, 2015, unless earlier redeemed or repurchased by the Issuers. The Second Lien Notes mature on April 1, 2017, unless earlier redeemed or repurchased by the Issuers. In December 2010, we made a voluntary unscheduled prepayment on our First Lien Notes of \$27.5 million. In May 2011, we repurchased \$0.4 million of the First Lien Notes and \$2.3 million of the Second Lien Notes. In December 2011 we issued an additional \$200.0 million of First Lien Notes. As a result, the aggregate principal balance of the Notes is \$669.8 million as of September 30, 2012, with \$447.1 million (in respect of the First Lien Notes) due in 2015 and \$222.7 million (in respect of the Second Lien Notes) due in 2017. The Partnership entered into a term loan facility in connection with its IPO in April 2011. The \$125.0 million balance is due in 2016.
- (2) The Company and the Partnership lease various facilities and equipment, including railcars and real property, under long-term operating leases for various periods.
- (3) The amount includes commitments under capital lease arrangements for equipment and for two leases associated with pipelines and storage and terminal equipment of GWEC.
- (4) The amount includes (a) commitments under several agreements in our petroleum operations related to pipeline usage, petroleum products storage and petroleum transportation, (b) commitments under an electric supply agreement with the city of Coffeyville, (c) a product supply agreement with Linde, (d) a pet coke supply agreement with HollyFrontier Corporation having an initial term that ends in 2013, subject to renewal and (e) approximately \$482.8 million payable ratably over nine years pursuant to petroleum transportation service agreements between CRRM and TransCanada Keystone Pipeline, LP ("TransCanada"). Under the agreements, CRRM would receive transportation of at least 25,000 barrels per day of crude oil with a delivery point at Cushing, Oklahoma for a term of ten years on TransCanada's Keystone pipeline system. We began receiving crude oil under the agreements in the first quarter of 2011.



Table of Contents

- (5) Environmental liabilities represent (a) our estimated payments required by federal and/or state environmental agencies related to closure of hazardous waste management units at our sites in Coffeyville and Phillipsburg, Kansas and (b) our estimated remaining costs to address environmental contamination resulting from a reported release of UAN in 2005 pursuant to the State of Kansas Voluntary Cleaning and Redevelopment Program. We also have other environmental liabilities which are not contractual obligations but which would be necessary for our continued operations. See "Commitments and Contingencies Environmental, Health & Safety Matters."
- (6) Interest payments are based on stated interest rates for the Notes and the current interest rate for the Partnership's credit facility. Interest is payable on the Notes semi-annually on April 1 and October 1 of each year.
- (7) Standby letters of credit issued against our ABL credit facility include \$0.2 million of letters of credit issued in connection with environmental liabilities, \$26.3 million in letters of credit to secure transportation services for crude oil, \$0.6 million issued to guarantee a portion of our insurance policy and a \$0.1 million issued for the purpose of providing support during the transition of letters of credit assumed during the Wynnewood Acquisition.

**Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements as of September 30, 2012, as defined within the rules and regulations of the SEC.

**Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *"Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,"* ("ASU 2011-04"). ASU 2011-04 changed the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 also expanded the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance was to be applied prospectively. The provisions of ASU 2011-04 were effective for interim and annual periods beginning after December 15, 2011. We adopted this standard as of January 1, 2012. The adoption of this standard did not impact the condensed consolidated financial statement footnote disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *"Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income,"* ("ASU 2011-05") which amended former comprehensive income guidance. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, we must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 was effective for interim and annual periods beginning after December 2011 and was to be applied retrospectively. In December 2011, FASB issued ASU 2011-11, which deferred the effective date of the changes in ASU 2011-05 that related to the presentation of reclassification adjustments to again consider whether to present the effects of reclassifications out of accumulated other comprehensive income on the face of the financials. We adopted this standard as of January 1, 2012. The adoption of this standard expanded the condensed consolidated financial statements and footnote disclosures.

In December 2011, the FASB issued ASU No. 2011-11, *"Disclosures about Offsetting Assets and Liabilities"* ("ASU 2011-11") which required new disclosure standards to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under

Table of Contents

IFRS. This new guidance is to be applied retrospectively. ASU 2011-11 will be effective for interim and annual periods beginning January 1, 2013. We believe this standard will expand the Company's condensed consolidated financial statement footnote disclosures.

**Critical Accounting Policies**

Our critical accounting policies are disclosed in the "Critical Accounting Policies" section of our Annual Report on Form 10-K for the year ended December 31, 2011. No modifications have been made to our critical accounting policies.

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

The risk inherent in our market risk sensitive instruments and positions is the potential loss from adverse changes in commodity prices and interest rates. Information about market risks for the nine months ended September 30, 2012 does not differ materially from that discussed under Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011. We are exposed to market pricing for all of the products sold in the future both at our petroleum business and the nitrogen fertilizer business, as all of the products manufactured in both businesses are commodities.

Our earnings and cash flows and estimates of future cash flows are sensitive to changes in energy prices. The prices of crude oil and refined products have fluctuated substantially in recent years. These prices depend on many factors, including the overall demand for crude oil and refined products, which in turn depends, among other factors, general economic conditions, the level of foreign and domestic production of crude oil and refined products, the availability of imports of crude oil and refined products, the marketing of alternative and competing fuels, the extent of government regulations and global market dynamics. The prices we receive for refined products are also affected by factors such as local market conditions and the level of operations of other refineries in our markets. The prices at which we can sell gasoline and other refined products are strongly influenced by the price of crude oil. Generally, an increase or decrease in the price of crude oil results in a corresponding increase or decrease in the price of gasoline and other refined products. The timing of the relative movement of the prices, however, can impact profit margins, which could significantly affect our earnings and cash flows.

At September 30, 2012, we had over-the-counter commodity swaps consisting of 26.3 million barrels of crack spreads primarily to fix the margin on a portion of future gasoline and distillate production from our two refineries. The fair value of the outstanding contracts at September 30, 2012 was a net unrealized loss of \$115.7 million, comprised of both short-term and long-term unrealized gains and losses. A change of \$1.00 per barrel in the fair value of the crack spread swaps would result in an increase or decrease in the related fair values of the commodity hedging instruments of \$26.3 million.

***Interest Rate Risk Management***

On June 30 and July 1, 2011 CRNF entered into two floating-to-fixed interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of its \$125 million floating rate term debt which matures in April 2016. The aggregate notional amount covered under these agreements totals \$62.5 million (split evenly between the two agreement dates) and commenced on August 12, 2011 and expires on February 12, 2016. Under the terms of the interest rate swap agreement entered into on June 30, 2011, CRNF will receive a floating rate based on three month LIBOR and pay a fixed rate of 1.94%. Under the terms of the interest rate swap agreement entered into on July 1, 2011, CRNF will receive a floating rate based on three month LIBOR and pay a fixed rate of 1.975%. Both swap agreements will be settled every 90 days. The effect of these swap agreements is to lock in a fixed rate of interest of approximately 1.96% plus the applicable margin paid

Table of Contents

to lenders over three month LIBOR as governed by the CRNF credit agreement. At September 30, 2012, the effective rate was approximately 4.59%. The agreements were designated as cash flow hedges at inception and accordingly, the effective portion of the gain or loss on the swap is reported as a component of accumulated other comprehensive income (loss) ("AOCI"), and will be subsequently reclassified into interest expense when the interest rate swap transaction affects earnings. The ineffective portion of the gain or loss will be recognized immediately in current interest expense.

The Partnership still has exposure to interest rate risk on 50% of its \$125.0 million floating rate term debt. A 1.0% increase over the Eurodollar floor spread of 3.5%, as specified in the credit agreement, would increase interest cost to the Partnership by approximately \$625,000 on an annualized basis, thus decreasing income from operations by the same amount.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Our management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated as of September 30, 2012 the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon and as of the date of that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any system of disclosure controls and procedures is based in part upon assumptions about the likelihood of future events. Due to these and other inherent limitations of any such system, there can be no assurance that any design will always succeed in achieving its stated goals under all potential future conditions.

*Changes in Internal Control Over Financial Reporting*

There has been no change in our internal control over financial reporting required by Rule 13a-15 of the Exchange Act that occurred during the fiscal quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**Part II. Other Information**

**Item 1. Legal Proceedings**

See Note 15 ("Commitments and Contingencies") to Part I, Item I of this Form 10-Q, which is incorporated by reference into this Part II, Item 1, for a description of the litigation, legal and administrative proceedings and environmental matters.

**Item 1A. Risk Factors**

The Company's risk factors previously disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2011, and in our Quarterly Report on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012, have been amended and restated and are included in full in Exhibit 99.1 attached to this report.

**Item 6. Exhibits**

Number	Exhibit Title
4.1**	Indenture, dated as of October 23, 2012, among CVR Refining, LLC, Coffeyville Finance Inc., the Guarantors (as defined therein) and Wells Fargo Bank, National Association, as Trustee and Collateral Trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on October 29, 2012).
4.2**	Forms of 6.500% Second Lien Senior Secured Notes due 2022 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on October 29, 2012).
4.3**	Registration Rights Agreement, dated October 23, 2012, among CVR Refining, LLC, Coffeyville Finance Inc., the Subsidiary Guarantors, and Credit Suisse Securities (USA) LLC and Citigroup Global Markets Inc. as Representatives of the several initial purchasers (incorporated by reference to Exhibit 4.3 to the Company's Form 8-K filed on October 29, 2012).
4.4**	Fifth Supplemental Indenture, dated as of October 23, 2012, among Coffeyville Resources, LLC, Coffeyville Finance Inc., the guarantors named therein and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.4 to the Company's Form 8-K filed on October 29, 2012).
10.1*	Third Amended and Restated Employment Agreement, dated as of July 27, 2012, between CVR Energy, Inc. and Susan M. Ball.
10.2*	Amended and Restated Crude Oil Supply Agreement, dated August 31, 2012, by and between Vitol Inc. and Coffeyville Resources Refining & Marketing, LLC
10.3*	Form of Restricted Stock Unit Agreement
31.1*	Certification of the Company's Chief Executive Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) under the Securities Exchange Act.
31.2*	Certification of the Company's Chief Financial Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) under the Securities Exchange Act.
32.1*	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Risk Factors.

Table of Contents

Number	Exhibit Title
101*	The following financial information for CVR Energy, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, filed with the SEC on November 6, 2012, formatted in XBRL ("Extensible Business Reporting Language") includes: (1) Condensed Consolidated Balance Sheets (unaudited), (2) Condensed Consolidated Statements of Operations (unaudited), (3) Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited), (4) Condensed Consolidated Statement of Changes in Equity (unaudited), (5) Condensed Consolidated Statements of Cash Flows (unaudited), (5) Condensed Consolidated Statement of Changes in Equity (unaudited) and (6) the Notes to Condensed Consolidated Financial Statements (unaudited), tagged in detail.***.

---

\*  
Filed herewith.

\*\*  
Previously filed.

Certain portions of this exhibit have been omitted and separately filed with the SEC pursuant to a request for confidential treatment which is pending at the SEC.

\*\*\*  
Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and is otherwise not subject to liability under these sections.

PLEASE NOTE: Pursuant to the rules and regulations of the Securities and Exchange Commission, we have filed or incorporated by reference the agreements referenced above as exhibits to this quarterly report on Form 10-Q. The agreements have been filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other factual information about the Company or its business or operations. In particular, the assertions embodied in any representations, warranties and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties and covenants in the agreements may have been used for the purpose of allocating risk between the parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Company or its business or operations on the date hereof.

