CVR ENERGY INC
Form 10-Q
November 06, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

ý **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

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

For the transition period from to .
Commission file number: 001-33492

CVR ENERGY, INC.

(Exact name of registrant as specified in its charter)

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

(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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 ý No o

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

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

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

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

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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, reformate 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.

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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.

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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.

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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)	
ASSETS		
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
Total current assets	1,865,817	1,356,783
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
Total assets	$ 3,652,377	$ 3,119,291
LIABILITIES AND EQUITY		
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
Total current liabilities	728,075	587,559
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
Total long-term liabilities	1,298,190	1,232,029
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)

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.

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CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(unaudited) (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.

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CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)			
	(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.

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CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Stockholders								
	Shares Issued	$0.01 Par Value Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Total CVR Stockholders Equity	Noncontrolling Interest	Total Equity
	(unaudited)								
	(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.

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CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2012	2011
	(unaudited) (in thousands)	
Cash flows from operating activities:		
Net income	$ 367,767	$ 300,225
Adjustments to reconcile net income to net cash provided by operating activities:		
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
Changes in assets and liabilities:		
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)
Net cash provided by operating activities	783,802	345,918
Cash flows from investing activities:		
Capital expenditures	(145,053)	(46,631)
Proceeds from sale of assets	421	37
Insurance proceeds for UAN reactor rupture	1,026	2,745
Net cash used in investing activities	(143,606)	(43,849)
Cash flows from financing activities:		
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)

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.

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

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

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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 $66^2/_3\%$ 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.

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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

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

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.

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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			