CVR ENERGY INC
Form 10-K
March 28, 2008

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

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** *(Address of Principal Executive Offices)*	**77479** *(Zip Code)*

Registrant s Telephone Number, including Area Code:
(281) 207-3200

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**

Common Stock, $.01 par value per share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

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 such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The Registrant consummated the initial public offering of its common stock on October 26, 2007. Accordingly, there was no public market for the Registrant s common stock as of June 30, 2007, the last day of the Registrant s most recently completed second fiscal quarter. As of March 27, 2008, the aggregate market value of the voting and non-voting common equity held by non-affiliates was $532,983,396.

Indicate the number of shares outstanding of each of the Registrant s classes of common stock, as of the latest practicable date.

Class	**Outstanding at March 27, 2008**
Common Stock, par value $0.01 per share	86,141,291 shares

Documents Incorporated By Reference

Document	**Parts Incorporated**

Proxy Statement for the 2008 Annual Meeting of Stockholders	Items 10, 11, 12, 13 and 14 of Part III

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PART I

Item 1. *Business*

We are an independent refiner and marketer of high value transportation fuels. In addition, we currently own all of the interests (other than the managing general partner interest and associated incentive distribution rights (the IDRs)) in a limited partnership which produces the nitrogen fertilizers ammonia and urea ammonia nitrate (UAN).

Our petroleum business includes a 113,500 bpd complex full coking medium sour crude refinery in Coffeyville, Kansas. In addition, our supporting businesses include (1) a crude oil gathering system serving central Kansas, northern Oklahoma and southwest Nebraska, (2) storage and terminal facilities for asphalt and refined fuels in Phillipsburg, Kansas, and (3) a rack marketing division supplying product through tanker trucks directly to customers located in close geographic proximity to Coffeyville and Phillipsburg and to customers at throughput terminals on Magellan refined products distribution systems.

The nitrogen fertilizer business is the only operation in North America that utilizes a coke gasification process to produce ammonia (based on data provided by Blue Johnson & Associates). A majority of the ammonia produced by the nitrogen fertilizer plant is further upgraded to UAN fertilizer (a solution of urea and ammonium nitrate in water used as a fertilizer). By using pet coke (a coal-like substance that is produced during the refining process) instead of natural gas as a primary raw material, at current natural gas and pet coke prices the nitrogen fertilizer business is the lowest cost producer and marketer of ammonia and UAN fertilizers in North America.

We have two business segments: petroleum and nitrogen fertilizer. For the fiscal years ended December 31, 2005, 2006 and 2007, we generated combined net sales of $2.4 billion, $3.0 billion and $3.0 billion, respectively, and operating income of $270.8 million, $281.6 million and $204.3 million, respectively. Our petroleum business generated $2.3 billion, $2.9 billion and $2.8 billion of our combined net sales, respectively, over these periods, with the nitrogen fertilizer business generating substantially all of the remainder. In addition, during these periods, our petroleum business contributed $199.7 million, $245.6 million and $162.5 million of our combined operating income, respectively, with the nitrogen fertilizer business contributing substantially all of the remainder.

The limited partnership which operates the nitrogen fertilizer business filed a registration statement with the Securities and Exchange Commission (the SEC) on February 28, 2008 in connection with selling certain of its interests to the public but there is no assurance that such offering will be consummated on the terms described in the registration statement or at all.

Our History

Our refinery assets, which began operation in 1906, and the nitrogen fertilizer plant, which was built in 2000, were operated as a small component of Farmland Industries, Inc., an agricultural cooperative, and its predecessors until March 3, 2004. Farmland filed for bankruptcy protection on May 31, 2002.

Coffeyville Resources, LLC, a subsidiary of Coffeyville Group Holdings, LLC, won the bankruptcy court auction for Farmland s petroleum business and a nitrogen fertilizer plant and completed the purchase of these assets on March 3, 2004. Coffeyville Group Holdings, LLC operated our business from March 3, 2004 through June 24, 2005.

On June 24, 2005, pursuant to a stock purchase agreement dated May 15, 2005, Coffeyville Acquisition LLC, which was formed in Delaware on May 13, 2005 by certain funds affiliated with Goldman, Sachs & Co. and Kelso &

Company, L.P. (the Goldman Sachs Funds and the Kelso Funds, respectively), acquired all of the subsidiaries of Coffeyville Group Holdings, LLC. Coffeyville Acquisition operated our business from June 24, 2005 until CVR Energy s initial public offering in October 2007.

CVR Energy was formed in September 2006 as a subsidiary of Coffeyville Acquisition in order to consummate an initial public offering of the businesses operated by Coffeyville Acquisition. Prior to CVR

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Energy s initial public offering in October 2007, (1) Coffeyville Acquisition transferred all of its businesses to CVR Energy in exchange for all of CVR Energy s common stock, (2) Coffeyville Acquisition was effectively split into two entities, with the Kelso Funds controlling Coffeyville Acquisition and the Goldman Sachs Funds controlling Coffeyville Acquisition II LLC and CVR Energy s senior management receiving an equivalent position in each of the two entities, (3) we transferred our nitrogen fertilizer business into a newly formed limited partnership in exchange for all of the partnership interests in the limited partnership and (4) we sold all of the interests of the managing general partner of this partnership to an entity owned by our controlling stockholders and senior management at fair market value on the date of the transfer. CVR Energy consummated its initial public offering on October 26, 2007.

On February 28, 2008, the Partnership filed a registration statement with the SEC to effect a contemplated initial public offering of its common units representing limited partner interests. The registration statement provides that upon consummation of the Partnership s initial public offering, we will indirectly own the Partnership s special general partner and approximately 87% of the outstanding units of the Partnership. There can be no assurance that any such offering will be consummated on the terms described in the registration statement or at all.

Petroleum Business

Asset Description

We operate a complex cracking and coking medium-sour oil refinery which at maximum capacity has the ability to produce 123,500 bpd of petroleum products. This amount represents approximately 17% of our region s output. The facility is situated on approximately 440 acres in southeast Kansas, approximately 100 miles from Cushing, Oklahoma, a major crude oil trading and storage hub.

The Coffeyville refinery is a complex facility. Complexity is a measure of a refinery s ability to process lower quality crude in an economic manner. It is also a measure of a refinery s ability to convert lower cost, more abundant heavier and sour crudes into greater volumes of higher valued refined products such as gasoline and distillate, thereby providing a competitive advantage over less complex refineries. For the year ended December 31, 2007, our refinery s product yield included gasoline (mainly regular unleaded) (43%), diesel fuel (mainly ultra low sulfur diesel) (40%), and coke and other refined products such as NGC (propane, butane), slurry, reformer feeds, sulfur, gas oil and produced fuel (17%).

Our petroleum business also includes the following auxiliary operating assets:

Crude Oil Gathering System. We own and operate a 25,000 bpd crude oil gathering system serving central Kansas, northern Oklahoma and southwestern Nebraska. The system has field offices in Bartlesville, Oklahoma and Plainville and Winfield, Kansas. The system is comprised of over 300 miles of feeder and trunk pipelines, 41 trucks, and associated storage facilities for gathering light, sweet Kansas, Nebraska and Oklahoma crude oils purchased from independent crude producers. We also lease a section of a pipeline from Magellan Pipeline Company, L.P.

Phillipsburg Terminal. We own storage and terminaling facilities for asphalt and refined fuels in Phillipsburg, Kansas. The asphalt storage and terminaling facilities are used to receive, store and redeliver asphalt for another oil company for a fee pursuant to an asphalt services agreement.

Pipelines. We own a 145,000 bpd proprietary pipeline system that transports crude oil from Caney, Kansas to our refinery. Crude oils sourced outside of our proprietary gathering system are delivered by common carrier pipelines into various terminals in Cushing, Oklahoma, where they are blended and then delivered to Caney, Kansas via a pipeline owned by Plains All American L.P. We also own associated crude oil storage tanks with

a capacity of approximately 2 million barrels located outside our refinery.

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Feedstocks Supply

Our refinery has the capability to process blends of a variety of crudes ranging from heavy sour to light sweet crudes. Currently, our refinery processes crude from a broad array of sources. We purchase foreign crudes from Latin America, South America, West Africa, the Middle East, the North Sea and Canada. We purchase domestic crudes from Kansas, Oklahoma, Nebraska, Texas, and offshore deepwater Gulf of Mexico production. While crude oil has historically constituted over 85% of our feedstock inputs during the last five years, other feedstock inputs include isobutane, normal butane, natural gas, alky feed, gas oil and vacuum tower bottoms.

Crude is supplied to our refinery through our wholly owned gathering system and by pipeline. Our crude gathering system was expanded in 2006 and now supplies in excess of 21,000 bpd of crude to the refinery (approximately 20% of total supply). Locally produced crudes are delivered to the refinery at a discount to WTI and are of similar quality to WTI. These lighter sweet crudes allow us to blend higher percentages of low cost crudes such as heavy sour Canadian while maintaining our target medium sour blend with an API gravity of 28-35 degrees and 1.0-1.2% sulfur. Crude oils sourced outside of our proprietary gathering system are delivered to Cushing, Oklahoma by various pipelines including Seaway, Basin and Spearhead and subsequently to Coffeyville via Plains pipeline and our own 145,000 bpd proprietary pipeline system.

For the year ended December 31, 2007, our crude oil supply blend was comprised of approximately 65% light sweet crude oil, 12% heavy sour crude oil and 23% medium/light sour crude oil. The light sweet crude oil includes our locally gathered crude oil.

We obtain all of the crude oil for our refinery under a credit intermediation agreement with J. Aron (other than crude oil that we acquire in Kansas, Missouri, Nebraska, Oklahoma and all states adjacent thereto). The credit intermediation agreement helps us reduce our inventory position and mitigate crude pricing risk.

Marketing and Distribution

We focus our petroleum products marketing efforts in the central mid-continent and Rocky Mountain areas because of their relative proximity to our oil refinery and their pipeline access. Since June 2005, we have significantly expanded our rack sales. Rack sales are sales made using tanker trucks via either a proprietary or third party terminal facility designed for truck loading. In the year ended December 31, 2007, approximately 23% of the refinery s products were sold through the rack system directly to retail and wholesale customers while the remaining 77% was sold through pipelines via bulk spot and term contracts. 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 and NuStar.

We are able to distribute gasoline, diesel fuel, and natural gas liquids produced at the refinery either into the Magellan or Enterprise pipelines and further on through NuStar and other Magellan systems or via the trucking system. The Magellan #2 and #3 pipelines (with capacity of 81,000 bpd and 32,000 bpd, respectively) are connected directly to the refinery and transport products to Kansas City and other northern cities. The NuStar and Magellan (Mountain) pipelines are accessible via the Enterprise outbound line (with capacity of 12,000 bpd) or through the Magellan system at El Dorado, Kansas. Our fuels loading rack at our Coffeyville refinery has a maximum delivery capability of 40,000 bpd of finished gasoline and diesel fuels.

Customers

Customers for our petroleum products include other refiners, convenience store companies, railroads and farm cooperatives. We have bulk term contracts in place with many of these customers, which typically extend from a few months to one year in length. For the year ended December 31, 2007, QuikTrip Corporation accounted for 11.6% of our petroleum business sales and 64.3% of our petroleum sales were made to our 10 largest customers. We sell bulk products based on industry market related indexes such as Platt s or NYMEX related Group Market (Midwest) prices. We have also implemented a rack marketing initiative. Truck rack

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sales are at daily posted prices which are influenced by the NYMEX, competitor pricing and group spot market differentials.

Competition

We compete with our competitors primarily on the basis of price, reliability of supply, availability of multiple grades of products and location. The principal competitive factors affecting our refining operations are costs of crude oil and other feedstock costs, refinery complexity (a measure of a refinery s ability to convert lower cost heavy and sour crudes into greater volumes of higher valued refined products such as gasoline and distillate), refinery efficiency, refinery product mix and product distribution and transportation costs.

In addition to seven mid-continent refineries operated by Conoco Phillips, Frontier Oil, Valero, NCRA, Gary Williams Energy, Sinclair and Sunoco, our oil refinery in Coffeyville, Kansas competes against trading companies such as SemFuel, L.P., Western Petroleum, Center Oil, Tauber Oil Company, Morgan Stanley and others. In addition to competing refineries located in the mid-continent United States, our oil refinery also competes with other refineries located outside the region that are linked to the mid-continent market through an extensive product pipeline system. These competitors include refineries located near the U.S. Gulf Coast and the Texas Panhandle region. Our refinery competition also includes branded, integrated and independent oil refining companies such as BP, Shell, ConocoPhillips, Valero, Sunoco and Citgo.

Seasonality

Our petroleum business experiences seasonal effects as demand for gasoline products is generally higher during the summer months than during the winter months due to seasonal increases in highway traffic and road construction work. Demand for diesel fuel during the winter months also decreases due to agricultural work declines during the winter months. As a result, our results of operations for the first and fourth calendar quarters are generally lower than for those for the second and third calendar quarters. In addition, unseasonably cool weather in the summer months and/or unseasonably warm weather in the winter months in the markets in which we sell our petroleum products can vary demand for gasoline and diesel fuel.

Nitrogen Fertilizer Business

The nitrogen fertilizer business operates the only nitrogen fertilizer plant in North America that utilizes a pet coke gasification process to generate hydrogen feedstock that is further converted to ammonia for the production of nitrogen fertilizers. The nitrogen fertilizer business is also moving forward with an approximately $85 million fertilizer plant expansion, of which approximately $8 million was incurred as of December 31, 2007. We estimate this expansion will increase the nitrogen fertilizer plant s capacity to upgrade ammonia into premium priced UAN by approximately 50%. We currently expect to complete this expansion in late 2009 or early 2010.

The facility uses a gasification process licensed from an affiliate of the General Electric Company (General Electric) to convert pet coke to high purity hydrogen for subsequent conversion to ammonia. It uses between 950 to 1,050 tons per day of pet coke from our refinery and another 250 to 300 tons per day from unaffiliated, third-party sources such as other Midwestern refineries or pet coke brokers and converts it all to approximately 1,200 tons per day of ammonia. The nitrogen fertilizer plant has the following advantages compared to competing natural gas-based facilities:

Significantly Lower Cost Position. The nitrogen fertilizer plant s pet coke gasification process uses less than 1% of the natural gas relative to other nitrogen-based fertilizer facilities that are heavily dependent upon natural gas and are thus heavily impacted by natural gas price swings. Because the nitrogen fertilizer plant uses pet coke, the nitrogen fertilizer business has a significant cost advantage over other North American natural gas-based fertilizer producers. Our

adjacent refinery has supplied on average more than 75% of the nitrogen fertilizer business pet coke needs during the last four years.

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Strategic Location with Transportation Advantage. The nitrogen fertilizer business believes that selling products to customers within economic rail transportation limits of the nitrogen fertilizer plant and reducing transportation costs are keys to maintaining its profitability. Due to the nitrogen fertilizer plant s favorable location relative to end users and high product demand relative to production volume, all of the product shipments are targeted to freight advantaged destinations located in the U.S. farm belt. The available ammonia production at the nitrogen fertilizer plant is small and easily sold into truck and rail delivery points. The products leave our nitrogen fertilizer plant either in trucks for direct shipment to customers or in railcars for principally Union Pacific Railroad destinations. The nitrogen fertilizer business does not incur any intermediate storage, barge or pipeline freight charges. Consequently, because these costs are not incurred, the nitrogen fertilizer business estimates that it enjoys a distribution cost advantage over U.S. Gulf Coast ammonia and UAN producers and importers, assuming in each case freight rates and pipeline tariffs for U.S. Gulf Coast producers and importers as recently in effect.

On-Stream Factor. The on-stream factor is a measure of how long the units comprising the nitrogen fertilizer facility have been operational over a given period. The nitrogen fertilizer business expects that efficiency of the nitrogen fertilizer plant will continue to improve with operator training, replacement of unreliable equipment, and reduced dependence on contract maintenance.

	Year Ended December 31,				
	2003	**2004(1)**	**2005**	**2006(1)**	**2007**
Gasifier	90.1%	92.4%	98.1%	92.5%	90.0%
Ammonia	89.6%	79.9%	96.7%	89.3%	87.7%
UAN	81.6%	83.3%	94.3%	88.9%	78.7%

(1) On-stream factor is the total number of hours operated divided by the total number of hours in the reporting period. Excluding the impact of turnarounds at the nitrogen fertilizer facility in the third quarter of 2004 and 2006, (i) the on-stream factors in 2004 would have been 95.6% for gasifier, 83.1% for ammonia and 86.7% for UAN, and (ii) the on-stream factors in 2006 would have been 97.1% for gasifier, 94.3% for ammonia and 93.6% for UAN.

Raw Material Supply

The nitrogen fertilizer facility s primary input is pet coke. During the past four years, more than 75% of the nitrogen fertilizer business pet coke requirements on average were supplied by our adjacent oil refinery. Historically the nitrogen fertilizer business has obtained the remainder of its pet coke needs from third parties such as other Midwestern refineries or pet coke brokers at spot prices. If necessary, the gasifier can also operate on low grade coal as an alternative, which provides an additional raw material source. There are significant supplies of low grade coal available to the nitrogen fertilizer plant.

Pet coke is produced as a by-product of the refinery s coker unit process, which is one step in refining crude oil into gasoline, diesel and jet fuel. In order to refine heavy crude oils, which are lower in cost and more prevalent than higher quality crude, refiners use coker units, which help to convert the heavier components of these crudes. In North America, the shift from refining dwindling reserves of sweet crude oil to more readily available heavy and sour crude (which can be obtained from, among other places, the Canadian oil sands) will result in increased pet coke production. With $26.6 billion in coker unit projects planned at North American refineries as of November 2007, pet coke production is expected to increase significantly in the future.

The nitrogen fertilizer business fertilizer plant is located in Coffeyville, Kansas, which is part of the Midwest coke market. The Midwest coke market is not subject to the same level of pet coke price variability as is the Gulf Coast coke market, due mainly to more stable transportation costs. Pet coke transportation costs have gone up substantially in both the Atlantic and Pacific sectors. Given the fact that the majority of the nitrogen fertilizer business coke suppliers are located in the Midwest, the nitrogen fertilizer business s geographic location gives it a significant freight cost advantage over its Gulf Coast coke market competitors. The Midwest Green Coke (Chicago Area, FOB Source) annual average price over the last three years has ranged from $24.50 per ton to $26.83. The U.S. Gulf Coast market annual average price during the same

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period has ranged from $21.29 per ton to $49.83. Furthermore, Sinclair Tulsa Refining, located in Oklahoma, has announced a coker expansion project, and Frontier in El Dorado, Kansas has a coker expansion project under construction. These new refinery expansions should help to further supply the Midwest coke market.

The Linde Group (Linde) owns, operates, and maintains the air separation plant that provides contract volumes of oxygen, nitrogen, and compressed dry air to the gasifier for a monthly fee. The nitrogen fertilizer business provides and pays for all utilities required for operation of the air separation plant. The air separation plant has not experienced any long-term operating problems. The nitrogen fertilizer plant is covered for business interruption insurance for up to $25 million in case of any interruption in the supply of oxygen from Linde from a covered peril. The agreement with Linde expires in 2020. The agreement also provides that if the nitrogen fertilizer business requirements for liquid or gaseous oxygen, liquid or gaseous nitrogen or clean dry air exceed specified instantaneous flow rates by at least 10%, the nitrogen fertilizer business can solicit bids from Linde and third parties to supply its incremental product needs. The nitrogen fertilizer business is required to provide notice to Linde of the approximate quantity of excess product that it will need and the approximate date by which it will need it; the nitrogen fertilizer business and Linde will then jointly develop a request for proposal for soliciting bids from third parties and Linde. The bidding procedures may be limited under specified circumstances.

The nitrogen fertilizer business imports start-up steam for the nitrogen fertilizer plant from our oil refinery, and then exports steam back to the oil refinery once all units in the nitrogen fertilizer plant are in service. We have entered into a feedstock and shared services agreement with the Partnership which regulates, among other things, the import and export of start-up steam between the refinery and the nitrogen fertilizer plant.

Production Process

The nitrogen fertilizer plant was built in 2000 with two separate gasifiers to provide reliability. It uses a gasification process licensed from General Electric to convert pet coke to high purity hydrogen for subsequent conversion to ammonia. The nitrogen fertilizer plant is capable of processing approximately 1,300 tons per day of pet coke from our oil refinery and third-party sources and converting it into approximately 1,200 tons per day of ammonia. A majority of the ammonia is converted to approximately 2,000 tons per day of UAN. Typically 0.41 tons of ammonia are required to produce one ton of UAN.

Pet coke is first ground and blended with water and a fluxant (a mixture of fly ash and sand) to form a slurry that is then pumped into the partial oxidation gasifier. The slurry is then contacted with oxygen from the Linde air separation unit. Partial oxidation reactions take place and the synthesis gas (syngas) consisting predominantly of hydrogen and carbon monoxide, is formed. The mineral residue from the slurry is a molten slag (a glasslike substance containing the metal impurities originally present in coke) and flows along with the syngas into a quench chamber. The syngas and slag are rapidly cooled and the syngas is separated from the slag.

Slag becomes a by-product of the process. The syngas is scrubbed and saturated with moisture. The syngas next flows through a shift unit where the carbon monoxide in the syngas is reacted with the moisture to form hydrogen and CO_2. The heat from this reaction generates saturated steam. This steam is combined with steam produced in the ammonia unit and the excess steam not consumed by the process is sent to the adjacent oil refinery.

After additional heat recovery, the high-pressure syngas is cooled and processed in the acid gas removal unit. The syngas is then fed to a pressure swing absorption (PSA) where the remaining impurities are extracted. The PSA unit reduces residual carbon monoxide and CO_2 levels to trace levels, and the moisture-free, high-purity hydrogen is sent directly to the ammonia synthesis loop.

The hydrogen is reacted with nitrogen from the air separation unit in the ammonia unit to form the ammonia product. A large portion of the ammonia is converted to UAN.

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The following is an illustrative Nitrogen Fertilizer Plant Process Flow Chart:

The nitrogen fertilizer business schedules and provides routine maintenance to its critical equipment using its own maintenance technicians. Pursuant to a Technical Services Agreement with General Electric, which licenses the gasification technology to the nitrogen fertilizer business, General Electric experts provide technical advice and technological updates from their ongoing research as well as other licensees operating experiences.

The pet coke gasification process is licensed from General Electric pursuant to a license agreement that was fully paid up as of June 1, 2007. The license grants the nitrogen fertilizer business perpetual rights to use the pet coke gasification process on specified terms and conditions. The license is important because it allows the nitrogen fertilizer facility to operate at a low cost compared to facilities which rely on natural gas.

Distribution, Sales and Marketing

The primary geographic markets for the nitrogen fertilizer business fertilizer products are Kansas, Missouri, Nebraska, Iowa, Illinois, Colorado and Texas. The nitrogen fertilizer business markets the ammonia products to industrial and agricultural customers and the UAN products to agricultural customers. The direct application agricultural demand from the nitrogen fertilizer plant occurs in three main use periods. The summer wheat pre-plant occurs in August and September. The fall pre-plant occurs in late October and in November. The highest level of ammonia demand is traditionally in the spring pre-plant period, from March through May. There are also small fill volumes that move in the off-season to fill available storage at the dealer level.

Ammonia and UAN are distributed by truck or by railcar. If delivered by truck, products are sold on an FOB basis, and freight is normally arranged by the customer. The nitrogen fertilizer business leases a fleet of railcars for use in product delivery. The nitrogen fertilizer business also negotiates with distributors that have their own leased railcars to utilize these assets to deliver products. The nitrogen fertilizer business owns all of the truck and rail loading equipment at our nitrogen fertilizer facility. The nitrogen fertilizer business operates two truck loading and eight rail loading racks for each of ammonia and UAN.

The nitrogen fertilizer business markets agricultural products to destinations that produce the best margins for the business. These markets are primarily located near the Union Pacific Railroad lines or destinations that can be supplied by truck. By securing this business directly, the nitrogen fertilizer business reduces its

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dependence on distributors serving the same customer base, which enables the nitrogen fertilizer business to capture a larger margin and allows it to better control its product distribution. Most of the agricultural sales are made on a competitive spot basis. The nitrogen fertilizer business also offers products on a prepay basis for in-season demand. The heavy in-season demand periods are spring and fall in the corn belt and summer in the wheat belt. The corn belt is the primary corn producing region of the United States, which includes Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Ohio and Wisconsin. The wheat belt is the primary wheat producing region of the United States, which includes Kansas, North Dakota, Oklahoma, South Dakota and Texas. Some of the industrial sales are spot sales, but most are on annual or multiyear contracts. Industrial demand for ammonia provides consistent sales and allows the nitrogen fertilizer business to better manage inventory control and generate consistent cash flow.

Customers

The nitrogen fertilizer business sells ammonia to agricultural and industrial customers. The nitrogen fertilizer business sells approximately 80% of the ammonia it produces to agricultural customers in the mid-continent area between North Texas and Canada, and approximately 20% to industrial customers. Agricultural customers include distributors such as MFA, United Suppliers, Inc., Brandt Consolidated Inc., ConAgra Fertilizer, Interchem, and CHS Inc. Industrial customers include Tessenderlo Kerley, Inc. and National Cooperative Refinery Association. The nitrogen fertilizer business sells UAN products to retailers and distributors. Given the nature of its business, and consistent with industry practice, the nitrogen fertilizer business does not have long-term minimum purchase contracts with any of its customers.

For the years ended December 31, 2005, 2006 and 2007, the top five ammonia customers in the aggregate represented 55.2%, 51.9% and 62.1% of the nitrogen fertilizer business ammonia sales, respectively, and the top five UAN customers in the aggregate represented 43.1%, 30.0% and 38.7% of the nitrogen fertilizer business UAN sales, respectively. During the year ended December 31, 2005, Brandt Consolidated Inc. and MFA accounted for 23.3% and 13.6% of the nitrogen fertilizer business ammonia sales, respectively, and CHS Inc. and ConAgra Fertilizer accounted for 14.7% and 12.7% of the nitrogen fertilizer business UAN sales, respectively. During the year ended December 31, 2006, Brandt Consolidated Inc. and MFA accounted for 22.2% and 13.1% of its ammonia sales, respectively, and ConAgra Fertilizer and CHS Inc. accounted for 8.4% and 6.8% of its UAN sales, respectively. During the year ended December 31, 2007, Brandt Consolidated Inc., MFA and ConAgra Fertilizer accounted for 17.4%, 15.0% and 14.4% of the nitrogen fertilizer business ammonia sales, respectively, and ConAgra Fertilizer accounted for 18.7% of its UAN sales.

Competition

Competition in the nitrogen fertilizer industry is dominated by price considerations. However, during the spring and fall application seasons, farming activities intensify and delivery capacity is a significant competitive factor. The nitrogen fertilizer business maintains a large fleet of leased rail cars and seasonally adjusts inventory to enhance its manufacturing and distribution operations.

Domestic competition, mainly from regional cooperatives and integrated multinational fertilizer companies, is intense due to customers sophisticated buying tendencies and production strategies that focus on cost and service. Also, foreign competition exists from producers of fertilizer products manufactured in countries with lower cost natural gas supplies. In certain cases, foreign producers of fertilizer who export to the United States may be subsidized by their respective governments. The nitrogen fertilizer business major competitors include Koch Nitrogen, PCS, Terra and CF Industries, all of which produce more UAN than the nitrogen fertilizer business does.

The nitrogen fertilizer business main competitors in ammonia marketing are Koch s plants at Beatrice, Nebraska, Dodge City, Kansas and Enid, Oklahoma, as well as Terra s plants in Verdigris and Woodward, Oklahoma and Port

Neal, Iowa.

Based on Blue Johnson data regarding total U.S. demand for UAN and ammonia, we estimate that the nitrogen fertilizer plant s UAN production in 2007 represented approximately 4.5% of the total U.S. demand

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and that the net ammonia produced and marketed at Coffeyville represented less than 1% of the total U.S. demand.

Seasonality

Because the nitrogen fertilizer business primarily sells agricultural commodity products, its business is exposed to seasonal fluctuations in demand for nitrogen fertilizer products in the agricultural industry. As a result, the nitrogen fertilizer business typically generates greater net sales and operating income in the spring. In addition, the demand for fertilizers is affected by the aggregate crop planting decisions and fertilizer application rate decisions of individual farmers who make planting decisions based largely on the prospective profitability of a harvest. The specific varieties and amounts of fertilizer they apply depend on factors like crop prices, farmers current liquidity, soil conditions, weather patterns and the types of crops planted.

Environmental Matters

The petroleum and nitrogen fertilizer businesses are subject to extensive and frequently changing federal, state and local laws and regulations relating to the protection of the environment. These laws, their underlying regulatory requirements and the enforcement thereof impact our petroleum business and operations and the nitrogen fertilizer business by imposing:

- restrictions on operations and/or the need to install enhanced or additional controls;
- the need to obtain and comply with permits and authorizations;
- liability for the investigation and remediation of contaminated soil and groundwater at current and former facilities and off-site waste disposal locations; and
- specifications for the products marketed by our petroleum business and the nitrogen fertilizer business, primarily gasoline, diesel fuel, UAN and ammonia.

The petroleum refining industry is subject to frequent public and governmental scrutiny of its environmental compliance. As a result, the laws and regulations to which we are subject are often evolving and many of them have become more stringent or have become subject to more stringent interpretation or enforcement by federal and state agencies. The ultimate impact of complying with existing 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 Resource Conservation and Recovery Act (the RCRA) and the federal Clean Air Act have not yet been finalized, are under governmental or judicial review or are being revised. These regulations and other new air and water quality standards and stricter fuel regulations could result in increased capital, operating and compliance costs.

The principal environmental risks associated with our petroleum operations and the nitrogen fertilizer business are air emissions, releases of hazardous substances into the environment, and the treatment and discharge of wastewater. The legislative and regulatory programs that affect these areas are outlined below. For a discussion of the environmental impact of the 2007 flood and crude oil discharge, see Flood and Crude Oil Discharge Crude Oil Discharge and Flood and Crude Oil Discharge EPA Administrative Order on Consent.

The Federal Clean Air Act

The federal Clean Air Act and its implementing regulations as well as the corresponding state laws and regulations that regulate emissions of pollutants into the air affect our petroleum operations and the nitrogen fertilizer business

both directly and indirectly. Direct impacts may occur through the federal Clean Air Act s permitting requirements and/or emission control requirements relating to specific air pollutants. The federal Clean Air Act indirectly affects our petroleum operations and the nitrogen fertilizer business by extensively regulating the air emissions of sulfur dioxide (SO_2), volatile organic compounds, nitrogen oxides and other compounds including those emitted by mobile sources, which are direct or indirect users of our products.

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Some or all of the standards promulgated pursuant to the federal Clean Air Act, or any future promulgations of standards, may require the installation of controls or changes to our petroleum operations or the nitrogen fertilizer facilities in order to comply. If new controls or changes to operations are needed, the costs could be significant. These new requirements, other requirements of the federal Clean Air Act, or other presently existing or future environmental regulations could cause us to expend substantial amounts to comply and/or permit our refinery to produce products that meet applicable requirements.

Air Emissions. The regulation of air emissions under the federal Clean Air Act requires us to obtain various operating permits and to incur capital expenditures for the installation of certain air pollution control devices at our refinery. Various regulations specific to, or that directly impact, our industry have been implemented, including regulations that seek to reduce emissions from refineries flare systems, sulfur plants, large heaters and boilers, fugitive emission sources and wastewater treatment systems. Some of the applicable programs are the Benzene Waste Operations National Emission Standard for Hazardous Air Pollutants (NESHAP), New Source Performance Standards, New Source Review, and Leak Detection and Repair. We have incurred, and expect to continue to incur, substantial capital expenditures to maintain compliance with these and other air emission regulations.

In March 2004, we entered into a Consent Decree with the U.S. Environmental Protection Agency (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 s prior operation of our oil refinery. Under the Consent Decree, we agreed to install controls on certain process equipment and make certain operational changes at our refinery. As a result of our agreement to install certain controls and implement certain operational changes, the EPA and KDHE agreed not to impose civil penalties, and provided a release from liability for Farmland s alleged noncompliance with the issues addressed by the Consent Decree. Pursuant to the Consent Decree, in the short term, we have increased the use of catalyst additives to the fluid catalytic cracking unit at the facility to reduce emissions of SO_2. We expect to begin adding catalyst to reduce oxides of nitrogen (NOx) in 2008. In the long term, we will install controls to minimize both SO_2 and NOx emissions, which under terms of the Consent Decree require that final controls be in place by January 1, 2011. In addition, pursuant to the Consent Decree, we assumed certain cleanup obligations at the Coffeyville refinery and the Phillipsburg terminal. We agreed to retrofit certain heaters at the refinery with Ultra Low NOx burners. All heater retrofits have been performed and we are currently verifying that the heaters meet the Ultra Low NOx standards required by the Consent Decree. The Ultra Low NOx heater technology is in widespread use throughout the industry. There are other permitting, monitoring, record-keeping and reporting requirements associated with the Consent Decree. The overall cost of complying with the Consent Decree is expected to be approximately $41 million, of which approximately $35 million is expected to be capital expenditures and which does not include the cleanup obligations. No penalties are expected to be imposed as a result of the Consent Decree.

Over the course of the last several years, the EPA embarked on a Petroleum Refining Initiative alleging industry-wide noncompliance with four marquee issues: New Source Review, flaring, Leak Detection and Repair, and Benzene Waste Operations NESHAP. The Petroleum Refining Initiative has resulted in many refiners entering into consent decrees imposing civil penalties and requiring substantial expenditures for additional or enhanced pollution control. The EPA has indicated that it will seek all refiners to enter into global settlements pertaining to all marquee issues. Our current Consent Decree covers some, but not all, of the marquee issues. To the extent that we were to agree to enter a global settlement, we believe our incremental capital exposure would be limited primarily to the retrofit and replacement of heaters and boilers over a five to seven year timeframe.

Title V Air Permitting. The petroleum refinery is a major source of air emissions under the Title V permitting program of the federal Clean Air Act. A final Class I (major source) operating permit was issued for our oil refinery in August 2006. We are currently in the process of amending the Title V permit to include the recently approved expansion project permit and the continuous catalytic reformer permit. The nitrogen fertilizer plant has amended its Title V permit application to contain all terms and conditions imposed under its new Prevention of Significant

Deterioration (PSD) permit and all other air permits and/or approvals in place. We do not anticipate significant cost or difficulty in obtaining the Title V operating air permit for the

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nitrogen fertilizer plant. We believe that we hold all material air permits required to operate the Phillipsburg Terminal and our crude oil transportation company s facilities.

Release Reporting

The release of hazardous substances or extremely hazardous substances into the environment is subject to release reporting of threshold quantities under federal and state environmental laws. Our petroleum operations and the nitrogen fertilizer business periodically experience releases of hazardous substances and extremely hazardous substances that could cause our petroleum business and/or the nitrogen fertilizer business to become the subject of a government enforcement action or third-party claims.

The nitrogen fertilizer facility experienced an ammonia release as a result of a malfunction in August 2007 and reported the excess ammonia emissions to the EPA and KDHE. The EPA has investigated the release and has requested additional data. Our incident investigation related to the release indicates that the malfunction could not have been reasonably anticipated or avoided and we have forwarded our results to the EPA.

As a result of an inspection by the Occupational Safety and Health Administration (OSHA) following the August 2007 ammonia release OSHA issued citations against both the nitrogen fertilizer facility and the refinery seeking penalties totaling $163,000.

Fuel Regulations

Tier II, Low Sulfur Fuels. In February 2000, the EPA promulgated the Tier II Motor Vehicle Emission Standards Final Rule for all passenger vehicles, establishing standards for sulfur content in gasoline. These regulations mandate that the sulfur content of gasoline at any refinery shall not exceed 30 ppm during any calendar year beginning January 1, 2006. Such compliant gasoline is referred to as Ultra Low Sulfur Gasoline (ULSG). Phase-in of these requirements began during 2004. In addition, in January 2001, the EPA promulgated its on-road diesel regulations, which required a 97% reduction in the sulfur content of diesel sold for highway use by June 1, 2006, with full compliance by January 1, 2010. The EPA adopted a rule for off-road diesel in May 2004. The off-road diesel regulations will generally require a 97% reduction in the sulfur content of diesel sold for off-road use by June 1, 2010. Such compliant diesel is referred to as Ultra Low Sulfur Diesel (ULSD). We believe that our production of ULSG and ULSD will make us eligible for significant tax benefits in 2007 and 2008.

Modifications have been and will continue to be required at our refinery as a result of the Tier II gasoline and low sulfur diesel standards. In February 2004 the EPA granted us approval under a hardship waiver that would defer meeting final low sulfur Tier II gasoline standards until January 1, 2011 in exchange for our meeting low sulfur highway diesel requirements by January 1, 2007. We completed the construction and startup phase of our Ultra Low Sulfur Diesel Hydrodesulfurization unit in late 2006 and met the conditions of the hardship waiver. We are currently continuing our phased construction and startup of projects related to meeting our compliance date with ULSG standards. Compliance with the Tier II gasoline and on-road diesel standards required us to spend approximately $133 million during 2006 and approximately $103 million during 2007, and we estimate that compliance will require us to spend approximately $69 million between 2008 and 2010.

As a result of the 2007 flood, our refinery was not able to meet the annual average sulfur standard required in our hardship waiver. We provided timely notice to the EPA that we would not be able to meet the waiver requirement for 2007. Ordinarily, a refiner would purchase sulfur credits to meet the standard requirement. However, our hardship waiver does not allow sulfur credits to be used in 2006 and 2007. We have been working with the EPA to resolve the matter. In anticipation of settlement, the refinery purchased $3.6 million worth of sulfur credits that would equate to our exceeding the standard imposed by the hardship waiver. We will either use the credits by applying them towards

our gasoline pool account, or we will permanently retire the credits as part of our settlement. Because of the extraordinary nature of the 2007 flood, we do not anticipate the imposition of fines or penalties to resolve this matter. Additionally, we expect to meet our 2008 annual average sulfur limits as the exceedance for 2007 was outside of our control.

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Greenhouse Gas Emissions

The United States Congress has considered various proposals to reduce greenhouse gas emissions, but none have become law, and presently, there are no federal mandatory greenhouse gas emissions requirements. While it is probable that Congress will adopt some form of federal mandatory greenhouse gas emission reductions legislation in the future, the timing and specific requirements of any such legislation are uncertain at this time. In the absence of existing federal regulations, a number of states have adopted regional greenhouse gas initiatives to reduce CO_2 and other greenhouse gas emissions. In 2007, a group of Midwest states, including Kansas (where our refinery and the nitrogen fertilizer facility are located), formed the Midwestern Greenhouse Gas Accord, which calls for the development of a cap-and-trade system to control greenhouse gas emissions and for the inventory of such emissions. However, the individual states that have signed on to the accord must adopt laws or regulations implementing the trading scheme before it becomes effective, and the timing and specific requirements of any such laws or regulations in Kansas are uncertain at this time.

Compliance with any future legislation or regulation of greenhouse gas emissions, if it occurs, may result in increased compliance and operating costs and may have a material adverse effect on our results of operations, financial condition, and the ability of the nitrogen fertilizer business to make distributions. In anticipation of the potential legislation or regulation of greenhouse gas emissions, the nitrogen fertilizer business is focused on initiatives to reduce greenhouse gas emissions, particularly CO_2, and is working with a company with expertise in CO_2 capture and storage systems to develop plans whereby the nitrogen fertilizer business may, in the future, either sell approximately 850,000 tons per year of high purity CO_2 produced by the nitrogen fertilizer plant to oil and gas exploration and production companies to enhance oil recovery or pursue an economic means of geologically sequestering such CO_2. This project is currently in development, but is expected, if completed, to include either the direct sale of CO_2 or the sale of verified emission reduction credits should the credits accrete value in the future due to the implementation of mandatory emissions caps for CO_2.

The Clean Water Act

The federal Clean Water Act of 1972 affects our petroleum operations and the nitrogen fertilizer business by regulating the treatment of wastewater and imposing restrictions on effluent discharges into, or impacting, navigable water. Regular monitoring, reporting requirements and performance standards are preconditions for the issuance and renewal of permits governing the discharge of pollutants into water. Our petroleum business maintains numerous discharge permits as required under the National Pollutant Discharge Elimination System program of the federal Clean Water Act and has implemented internal programs to oversee our compliance efforts. Our nitrogen fertilizer facility operates under pretreatment requirements and has a permit to discharge our process wastewater to the local publicly owned treatment works.

All of our facilities are subject to Spill Prevention, Control and Countermeasures (SPCC) requirements under the Clean Water Act. In 2004, certain requirements of the rule were extended, and additional modifications are expected. When the modifications to the SPCC rule become final, we may be required to make capital expenditures in order to comply with the modified rule; however, we do not anticipate that any such costs will be significant.

In addition, we are regulated under the Oil Pollution Act of 1990 (the Oil Pollution Act). Among other requirements, the Oil Pollution Act requires the owner or operator of a tank vessel or facility to maintain an emergency oil response plan to respond to releases of oil or hazardous substances. We have developed and implemented such a plan for each of our facilities covered by the Oil Pollution Act. Also, in case of such releases, the Oil Pollution Act requires responsible parties to pay the resulting removal costs and damages, provides for substantial civil penalties, and authorizes the imposition of criminal and civil sanctions for violations. States where we have operations have laws similar to the Oil Pollution Act.

Wastewater Management. We have a wastewater treatment plant at our refinery permitted to handle an average flow of 2.2 million gallons per day. The facility uses a complete mix activated sludge (CMAS) system with three CMAS basins. The plant operates pursuant to a KDHE permit. We are also implementing a comprehensive spill response plan in accordance with the EPA rules and guidance.

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Ongoing fuels terminal and asphalt plant operations at Phillipsburg generate only limited wastewater flows (e.g., boiler blowdown, asphalt loading rack condensate, groundwater treatment). These flows are handled in a wastewater treatment plant that includes a primary clarifier, aerated secondary clarifier, and a final clarifier to a lagoon system. The plant operates pursuant to a KDHE Water Pollution Control Permit. To control facility runoff, management implements a comprehensive Spill Response Plan. Phillipsburg also has a timely and current application on file with the KDHE for a separate storm water control permit.

Resource Conservation and Recovery Act (RCRA)

Our operations are subject to the RCRA requirements for the generation, treatment, storage and disposal of hazardous wastes. When feasible, RCRA materials are recycled instead of being disposed of on-site or off-site. RCRA establishes standards for the management of solid and hazardous wastes. Besides governing current waste disposal practices, RCRA also addresses the environmental effects of certain past waste disposal operations, the recycling of wastes and the regulation of underground storage tanks containing regulated substances.

Waste Management. There are two closed hazardous waste units at the refinery and eight other hazardous waste units in the process of being closed pending state agency approval. In addition, one closed interim status hazardous waste landfarm located at the Phillipsburg terminal is under long-term post closure care.

We have set aside approximately $3.2 million in financial assurance for closure/post-closure care for hazardous waste management units at the Phillipsburg terminal and the Coffeyville refinery.

Impacts of Past Manufacturing. We are subject to a 1994 EPA administrative order related to investigation of possible past releases of hazardous materials to the environment at the Coffeyville refinery. In accordance with the order, we have documented existing soil and ground water conditions, which require investigation or remediation projects. The Phillipsburg terminal is subject to a 1996 EPA administrative order related to investigation of possible past releases of hazardous materials to the environment at the Phillipsburg terminal, which operated as a refinery until 1991. The Consent Decree that we signed with the EPA and KDHE requires us to complete all activities in accordance with federal and state rules.

The anticipated remediation costs through 2011 were estimated, as of December 31, 2007, to be as follows (in millions):

Facility	Site Investigation Costs	Capital Costs	Total O&M Costs Through 2011	Total Estimated Costs Through 2011
Coffeyville Oil Refinery	$ 0.3	$	$ 1.1	$ 1.4
Phillipsburg Terminal	0.3		1.9	2.2
Total Estimated Costs	$ 0.6	$	$ 3.0	$ 3.6

These estimates are based on current information and could go up or down as additional information becomes available through our ongoing remediation and investigation activities. At this point, we have estimated that, over ten years starting in 2008, we will spend between $5.8 million and $6.3 million to remedy impacts from past

manufacturing activity at the Coffeyville refinery and to address existing soil and groundwater contamination at the Phillipsburg terminal. It is possible that additional costs will be required after this ten year period.

Environmental Insurance. We have entered into environmental insurance policies as part of our overall risk management strategy. Our primary pollution legal liability policy provides us with an aggregate limit of $25.0 million subject to a $5.0 million self-insured retention. This policy covers cleanup costs resulting from pre-existing or new pollution conditions and bodily injury and property damage resulting from pollution conditions. It also includes a $25.0 million business interruption sub-limit subject to a 45-day waiting period. Our excess pollution legal liability policies provide us with up to an additional $50.0 million of aggregate limit. The excess pollution legal liability policies may not provide coverage until the $25.0 million of underlying limit available in the primary pollution legal liability policy has been exhausted. We also have a financial assurance policy linked to our pollution legal liability policy that provides a $4.0 million limit per

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pollution incident and an $8.0 million aggregate policy limit related specifically to closed RCRA units at the Coffeyville refinery and the Phillipsburg terminal. Each of these policies contains substantial exclusions; as such, there can be no assurance that we will have coverage for all or any particular liabilities. For a discussion of our insurance policies that relate to coverage for the 2007 flood and crude oil discharge, see Flood and Crude Oil Discharge Insurance.

Financial Assurance. We were required in the Consent Decree to establish $15 million in financial assurance to cover the projected cleanup costs posed by the Coffeyville and Phillipsburg facilities in the event we failed to fulfill our clean-up obligations. In accordance with the Consent Decree, this financial assurance is currently provided by a bond posted by Original Predecessor, Farmland. We will be required to replace the financial assurance currently provided by Farmland and have so replaced approximately $4.5 million to date. At this point, it is not clear what the amount of financial assurance will be when replaced. Although it may be significant, we do not expect it will be more than $15 million.

Environmental Remediation

Under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 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, retroactive and 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. The liability of a party is determined by the cost of investigation and remediation, the portion and toxicity of the hazardous substance(s) the party contributed, the number of solvent potentially responsible parties, and other factors.

As is the case with all companies engaged in similar industries, we face potential exposure from future claims and lawsuits involving environmental matters, including soil and water contamination, personal injury or property damage allegedly caused by hazardous substances that we, or potentially Farmland, manufactured, handled, used, stored, transported, spilled, released or disposed of. We cannot assure you that we will not become involved in future proceedings related to our release of hazardous or extremely hazardous substances or that, if we were held responsible for damages in any existing or future proceedings, such costs would be covered by insurance or would not be material.

Safety and Health Matters

We operate a comprehensive safety, health and security program, involving active participation of employees at all levels of the organization. We measure our success in the safety and health area primarily through the use of injury frequency rates administered by OSHA. In 2007, our oil refinery experienced a 75% reduction in injury frequency rates and the nitrogen fertilizer plant experienced a 81% reduction in such rate as compared to the average of the previous three years. The recordable injury rate reflects the number of recordable incidents (injuries as defined by OSHA) per 200,000 hours worked. For the year ended December 31, 2006, we had a recordable injury rate of 0.30 in our petroleum business and 4.90 in the nitrogen fertilizer business. For the year ended December 31, 2007, we had a recordable injury rate of 0.50 in our petroleum business and 0.93 in the nitrogen fertilizer business. Our recordable injury rate for all business units was 0.28 for the period from January 2007 to December 2007. In 2006, our refinery achieved one year worked without a lost-time accident, which based on available records, had never been achieved in the 100 year history of the facility, and in March 2007 our petroleum business achieved a milestone after operating for 1,000,000 consecutive man hours without a lost-time accident. For the year ended December 31, 2007, our nitrogen fertilizer business did not have a single lost-time accident. Despite our efforts to achieve excellence in our safety and health performance, there can be no assurances that there will not be accidents resulting in injuries or even fatalities.

We have implemented a new incident investigation program that is intended to improve the safety for our employees by identifying the root cause of accidents and potential accidents and by

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correcting conditions that could cause or contribute to accidents or injuries. We routinely audit our programs and consider improvements in our management systems.

Process Safety Management. We maintain a Process Safety Management (PSM) program. This program is designed to address all facets associated with OSHA guidelines for developing and maintaining a PSM program. We will continue to audit our programs and consider improvements in our management systems and equipment.

We have evaluated and continue to implement improvements at our refinery s process units, process pumping and piping systems and emergency isolation valves for control of process flows. We currently estimate the costs for implementing any recommended improvements to be between $7 million and $9 million over a period of four years. These improvements, if warranted, would reduce the risk of releases, spills, discharges, leaks, accidents, fires or other events and minimize the potential effects thereof. We are currently completing the start-up of the final additions of a new $27 million refinery flare system that replaced any remaining atmospheric sumps in our refinery. We have assessed the potential impacts on building occupancy caused by the location and design of our refinery and fertilizer plant control rooms and operator shelters. We have relocated non-essential personnel and contractors from the areas around the process areas and are currently constructing and installing permanent blast-proof operator control rooms and outside shelters. We expect the costs to upgrade or relocate these areas to be between $4 million and $6 million over the next two to five years.

In 2007, OSHA began PSM inspections of all refineries under its jurisdiction as part of its National Emphasis Program (the NEP) following OSHA s investigation of PSM issues relating to the multiple fatality explosion and fire at the BP Texas City facility in 2005. Completed NEP inspections have resulted in OSHA levying significant fines and penalties against most of the refineries inspected to date. At this time, our refinery has not been inspected in connection with OSHA s NEP program. Although we believe that our PSM program is in substantial compliance with OSHA PSM regulations, an OSHA NEP inspection could result in the imposition of significant fines and penalties as well as significant additional capital expenditures related to PSM.

Emergency Planning and Response. We have an emergency response plan that describes the organization, responsibilities and plans for responding to emergencies in the facilities. This plan is communicated to local regulatory and community groups. We have on-site warning siren systems and personal radios. We will continue to audit our programs and consider improvements in our management systems and equipment.

Security. We have a comprehensive security program to protect our facilities from unauthorized entry and exit from the facilities and potential acts of terrorism. Recent changes in the U.S. Department of Homeland Security rules and requirements may require enhancements and improvements to our current program.

Community Advisory Panel. We developed and continue to support ongoing discussions with the community to share information about our operations and future plans. Our community advisory panel includes wide representation of residents, business owners and local elected representatives for the city and county.

Employees

As of December 31, 2007, 428 employees were employed in our petroleum business, 105 were employed by the nitrogen fertilizer business and 44 employees were employed at our offices in Sugar Land, Texas and Kansas City, Kansas.

We entered into collective bargaining agreements which as of December 31, 2007 cover approximately 41% of our employees (all of whom work in our petroleum business) with the Metal Trades Union and the United Steelworkers of America. The collective bargaining agreements expire in March 2009. We believe that our relationship with our

employees is good.

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Prior to the consummation of our initial public offering, we entered into a services agreement with the Partnership and the managing general partner of the Partnership pursuant to which we agreed to provide certain management and other services to the Partnership, the managing general partner of the Partnership, and the Partnership s nitrogen fertilizer business. The services we provide under the agreement include the following services, among others:

services by our employees in capacities equivalent to the capacities of corporate executive officers, including chief executive officer, chief operating officer, chief financial officer, general counsel, fertilizer general manager, and vice president for environmental, health and safety, except that those who serve in such capacities under the agreement serve the Partnership on a shared, part-time basis only, unless we and the Partnership agree otherwise;

administrative and professional services, including legal, accounting services, human resources, insurance, tax, credit, finance, government affairs and regulatory affairs;

managing the property of the Partnership and Coffeyville Resources Nitrogen Fertilizers, LLC, a subsidiary of the Partnership, in the ordinary course of business;

recommendations on capital raising activities, including the issuance of debt or equity interests, the entry into credit facilities and other capital market transactions;

managing or overseeing litigation and administrative or regulatory proceedings, and establishing appropriate insurance policies for the Partnership, and providing safety and environmental advice;

recommending the payment of distributions; and

managing or providing advice for other projects as may be agreed by us and the managing general partner of the Partnership from time to time.

Personnel performing the actual day-to-day business and operations of the Partnership at the plant level are employed directly by the Partnership and its subsidiaries, which bear all personnel costs for these employees. We pay all compensation and benefits for our executive officers, including executive officers who perform services for the Partnership, and we are reimbursed by the managing general partner of the Partnership for a pro rata portion of such compensation and benefits based on the percentage of time each officer works for the Partnership.

Flood and Crude Oil Discharge

Overview

During the weekend of June 30, 2007, torrential rains in southeast Kansas caused the Verdigris River to overflow its banks and flood the city of Coffeyville. The river crested more than ten feet above flood stage, setting a new record for the river. Approximately 2,000 citizens and hundreds of homes throughout the city of Coffeyville were affected. Our refinery and the nitrogen fertilizer plant, both of which are located in close proximity to the Verdigris River, were flooded and forced to conduct emergency shutdowns and evacuate. The majority of the refinery s process units were under four to six feet of water and portions of the refinery s tank farms and wastewater treatment area were covered with eight to ten feet of water. As a result, the refinery and nitrogen fertilizer facilities sustained major damage and required repairs.

Property Damage and Lost Earnings

The refinery sustained damage to a large number of pumps, motors, tanks, control rooms and other buildings, electrical equipment and electronic controls and required significant clean-up in the areas surrounding the water and wastewater treatment plants. We hired nearly 1,000 extra contract workers to help repair and replace damaged equipment. The refinery started operating its reformer on August 6, 2007 and began to charge crude oil to the facility on August 9, 2007. Substantially all of the refinery s units were in operation by August 20, 2007.

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The nitrogen fertilizer facility, situated on slightly higher ground, sustained less damage than the refinery. Bringing the nitrogen fertilizer plant back on line involved replacing or repairing 30% of all electric drives, repairing 60% of the plant s motor control centers, refurbishing 100% of distributive control systems and programmable logic controllers, and repairing the main control room. The nitrogen fertilizer facility initiated startup at its production facility on July 13, 2007.

The total third party cost to repair the refinery is currently estimated at approximately $85 million. In addition, we spent approximately $3.5 million to repair the nitrogen fertilizer facility in the year ended December 31, 2007, and we anticipate that all further flood-related repairs for the nitrogen fertilizer business will cost approximately $0.7 million. We will pay for all flood-related repairs for the nitrogen fertilizer facility, whether or not the Partnership s contemplated initial public offering is consummated. We are currently uncertain how much of these amounts we will be able to recover through insurance. See Insurance.

Crude Oil Discharge

Because the Verdigris River rose so rapidly during the flood, much faster than predicted, our employees had to shut down and secure the refinery in six to seven hours, rather than the 24 hours typically needed for such an effort. Despite our efforts to secure the refinery prior to its evacuation as a result of the flood, we estimate that 1,919 barrels (80,600 gallons) of crude oil and 226 barrels of crude oil fractions were discharged from our refinery into the Verdigris River flood waters beginning on or about July 1, 2007. In particular, crude oil and its fractions were released from refinery storage tanks and the refinery sewer system. Crude oil was carried by floodwaters downstream from our refinery and into residential and commercial areas.

In response to the crude oil discharge, on July 1, 2007 we established an incident command center and assembled a team of environmental consultants and oil spill response contractors to manage our response to the crude oil discharge.

The O Brien s Group managed the overall process, including containment and recovery. The O Brien s Group is the largest provider of emergency preparedness and crisis management services to the energy and internal shipping industries.

United States Environmental Services, LLC provided operations support. This firm is a full-service environmental contracting company specializing in environmental emergency response, in-plant industrial services, contaminated site remediation, chemical/biological terrorism response, safety training and industrial hygiene.

The Center for Toxicology and Environmental Health oversaw sampling, analysis and reporting for the operation. This firm specializes in toxicology, risk assessment, industrial hygiene, occupational health and response to emergencies involving the release or threat of release of chemicals.

On July 2, 2007, the EPA dispatched additional oil spill response contractors to the site with the EPA s Mobile Command Post to monitor and coordinate pollution assessments related to the flooding and the crude oil discharge.

Beginning on or about July 2, 2007, the EPA s oil spill response contractors and we began jointly conducting daily aerial overflights of the Coffeyville area and our refinery. On or about July 2, 2007, (a) crude oil from the refinery was observed to be in the flood waters surrounding the above-ground storage tanks located at our refinery, (b) oil was observed in the Verdigris River and in flood waters that had inundated a portion of the city of Coffeyville, and (c) a sheen of oil was observed in the Verdigris River extending downstream from our refinery approximately ten miles.

Representatives from the KDHE and the Oklahoma Department of Environmental Quality have also been heavily involved in participating in the response to the oil discharge.

EPA Administrative Order on Consent

On July 10, 2007, we entered into an administrative order on consent (the Consent Order) with the EPA. As set forth in the Consent Order, the EPA concluded that the discharge of oil from our refinery caused

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and may continue to cause an imminent and substantial threat to the public health and welfare. Pursuant to the Consent Order, we agreed to perform specified remedial actions to respond to the discharge of crude oil from our refinery.

Under the Consent Order, within ninety (90) days after the completion of such remedial action, we will submit to the EPA for review and approval a final report summarizing the actions taken to comply with the Consent Order. We have worked with the EPA throughout the recovery process and we could be required to reimburse the EPA s costs under the federal Oil Pollution Act. Except as otherwise set forth in the Consent Order, the Consent Order does not limit the EPA s rights to seek other legal, equitable or administrative relief or action as it deems appropriate and necessary against us or from requiring us to perform additional activities pursuant to applicable law. Among other things, EPA reserved the right to assess administrative penalties against us and/or to seek civil penalties against us. In addition, the Consent Order states that it is not a satisfaction of or discharge from any claim or cause of action against us or any person for any liability we or such person may have under statutes or the common law, including any claims of the United States for penalties, costs and damages.

We are currently remediating the contamination caused by the crude oil discharge and expect our remedial actions to continue until May 2008. Total net costs recorded as of December 31, 2007 associated with remediation and third party property damage incurred by the crude oil discharge are approximately $23.5 million. This amount is net of anticipated insurance recoveries of $21.4 million. As of December 31, 2007, we have recovered $10.0 million from our insurance carriers under our environmental policies. These amounts do not include potential fines or penalties which may be imposed by regulatory authorities or costs arising from potential natural resource damages claims (for which we are unable to estimate a range of possible costs at this time) or possible additional damages arising from class action lawsuits related to the flood.

Property Repurchase Program and Claims for Property Damage

On July 19, 2007 we commenced a program to purchase approximately 330 homes and certain other properties in connection with the flood and the crude oil discharge. We offered to purchase the property of approximately 330 residential landowners (with the consent and cooperation of the city of Coffeyville) for 110% of their pre-flood appraised value (to be established by appraisal conducted without consideration of the flood), without release or other waiver of any rights by the landowners, and without deduction for the greater harm unquestionably caused to these properties by the flood itself. As of December 31, 2007, 322 of these approximately 330 residential properties are under contract. We estimate that this program will cost approximately $17.5 million, excluding certain costs associated with remediation.

In addition, in early July 2007 we opened a claims center in Coffeyville and established a toll-free number to facilitate the recording and processing of claims for compensation by those who may have incurred property and other damages related to the oil discharge. Staff assisted local residents in filing claims related to the 2007 flood and crude oil discharge. We also offered a toll-free number at the claims call center which was answered 24 hours a day. Call center operators collected property owners information and forwarded it to claims adjustors. The claims adjustors contacted property owners to schedule appointments. Operators also directed callers to local, state and federal disaster response agencies for additional assistance. We are presently reviewing and adjusting these claims.

Insurance

During and after the time of the 2007 flood and crude oil discharge, Coffeyville Resources, LLC was insured under insurance policies that were issued by a variety of insurers and which covered various risks, such as damage to our property, interruption of our business, environmental cleanup costs, and potential liability to third parties for bodily injury or property damage. These coverages include the following:

Our primary property damage and business interruption insurance program provided $300 million of coverage for flood-related damage, subject to a deductible of $2.5 million per occurrence and a 45-day waiting period for business interruption loss. While we believe that property insurance should

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cover substantially all of the estimated total physical damage to our property, our insurance carriers have cited potential coverage limitations and defenses that might preclude such a result.

Our builders risk policy provided coverage for property damage to buildings in the course of construction. Flood-related loss or damage is subject to a $100,000 deductible and sub-limit of $50 million.

Our environmental insurance coverage program provided coverage for bodily injury, property damage, and cleanup costs resulting from new pollution conditions. At the time of the flood, the program included a primary policy with a $25 million aggregate limit of liability. This policy was subject to a $1 million self-insured retention. In addition, at the time of the flood we had a $25 million excess policy that was triggered by exhaustion of the primary policy. The excess policy covered bodily injury and property damage resulting from new pollution conditions, but did not cover cleanup costs.

Our umbrella and excess liability coverage program provided $100 million of coverage excess of $5 million and other applicable insurance for third-party claims of property damage and bodily injury arising out of the sudden and accidental discharge of pollutants.

Coffeyville Resources, LLC promptly notified its insurers of the flood, the crude oil discharge, and related claims and lawsuits. We are in the process of submitting our claims to, responding to information requests from, and negotiating with the insurers with respect to costs and damages related to the 2007 flood and crude oil discharge. Although each insurer has reserved its rights under various policy exclusions and limitations and has cited potential coverage defenses, we are vigorously pursuing our insurance recovery claims. We expect that ultimate recovery will be subject to negotiation and, if negotiation is unsuccessful, litigation.

Our insurance policies also provide coverage for interruption to the business, including lost profits, and reimbursement for other expenses and costs we have incurred relating to the damages and losses suffered. This coverage, however, applies only to losses incurred after a business interruption of 45 days. Because both the refinery and the nitrogen fertilizer plant were restored to operation within this 45-day period, it is unlikely that any of the lost profits incurred because of the flood can be claimed under insurance.

Financial Impact on 2007 Results

Total gross costs recorded due to the flood and related crude oil discharge that were included in our statement of operations for the year ended December 31, 2007 were approximately $146.8 million. Of these gross costs, approximately $101.9 million were associated with repair and other matters as a result of the flood damage to our facilities. Included in this cost was $7.6 million of depreciation for temporarily idled facilities, $6.1 million of salaries, $2.2 million of professional fees and $86.0 million for other repair and related costs. There were approximately $44.9 million of costs recorded for the year ended December 31, 2007 related to the third party and property damage remediation as a result of the crude oil discharge. Total accounts receivable from insurers for flood related matters approximated $85.3 million at December 31, 2007, for which we believe collection is probable, including $11.4 million related to the crude oil discharge and $73.9 million as a result of the flood damage to our facilities.

As of December 31, 2007, we had received insurance proceeds of $10.0 million under our property insurance policy and an additional $10.0 million under our environmental policies related to recovery of certain costs associated with the crude oil discharge. Although we believe that we will recover substantial sums under our insurance policies, we are not sure of the ultimate amount or timing of such recovery because of the difficulty inherent in projecting the ultimate resolution of our claims. The difference between what we ultimately receive under our insurance policies compared to what has been recorded in our financial statements could be material to our financial statements. Ultimate recovery may require litigation. We could recover substantially less than our full claim.

Trademarks, Trade Names and Service Marks

This Annual Report on Form 10-K for the year ended December 31, 2007 (the Report) includes trademarks, including the registered trademark of COFFEYVILLE RESOURCES®, CVR Energy™ for which we have applied for federal registration, and other trademarks. This Report also contains trademarks, service marks, copyrights and trade names of other companies.

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Executive Officers

The following table sets forth the names, positions and ages (as of December 31, 2007) of each person who is an executive officer of CVR Energy. We also indicate in the biographies below which executive officers of CVR Energy hold similar positions with the managing general partner of the Partnership. Senior management of CVR Energy manages the Partnership pursuant to a services agreement among us, the Partnership and the Partnership s managing general partner.

Name	Age	Position
John J. Lipinski	56	Chairman of the Board of Directors, Chief Executive Officer and President
Stanley A. Riemann	56	Chief Operating Officer
James T. Rens	41	Chief Financial Officer and Treasurer
Edmund S. Gross	57	Senior Vice President, General Counsel and Secretary
Daniel J. Daly, Jr.	62	Executive Vice President, Strategy
Robert W. Haugen	49	Executive Vice President, Refining Operations
Wyatt E. Jernigan	56	Executive Vice President, Crude Oil Acquisition and Petroleum Marketing
Kevan A. Vick	53	Executive Vice President and Fertilizer General Manager
Christopher G. Swanberg	49	Vice President, Environmental, Health and Safety

John J. Lipinski has served as our chairman of the board since October 2007, our chief executive officer and president and a member of our board of directors since September 2006, chief executive officer and president of Coffeyville Acquisition since June 2005 and chief executive officer and president of Coffeyville Acquisition II and Coffeyville Acquisition III since October 2007. Since October 2007 Mr. Lipinski has also served as the chief executive officer, president and a director of the managing general partner of the Partnership. Mr. Lipinski has over 35 years of experience in the petroleum refining and nitrogen fertilizer industries. He began his career with Texaco Inc. In 1985, Mr. Lipinski joined The Coastal Corporation eventually serving as Vice President of Refining with overall responsibility for Coastal Corporation s refining and petrochemical operations. Upon the merger of Coastal with El Paso Corporation in 2001, Mr. Lipinski was promoted to Executive Vice President of Refining and Chemicals, where he was responsible for all refining, petrochemical, nitrogen based chemical processing, and lubricant operations, as well as the corporate engineering and construction group. Mr. Lipinski left El Paso in 2002 and became an independent management consultant. In 2004, he became a Managing Director and Partner of Prudentia Energy, an advisory and management firm. Mr. Lipinski graduated from Stevens Institute of Technology with a Bachelor of Engineering (Chemical) and received a Juris Doctor degree from Rutgers University School of Law.

Stanley A. Riemann has served as chief operating officer of our company since September 2006, chief operating officer of Coffeyville Acquisition since June 2005, chief operating officer of Coffeyville Resources since February 2004 and chief operating officer of Coffeyville Acquisition II and Coffeyville Acquisition III since October 2007. Since October 2007 Mr. Riemann has also served as the chief operating officer of the managing general partner of the Partnership. Prior to joining our company in February 2004, Mr. Riemann held various positions associated with the Crop Production and Petroleum Energy Division of Farmland for over 29 years, including, most recently, Executive Vice President of Farmland and President of Farmland s Energy and Crop Nutrient Division. In this capacity, he was directly responsible for managing the petroleum refining operation and all domestic fertilizer operations, which included the Trinidad and Tobago nitrogen fertilizer operations. His leadership also extended to managing Farmland s

interests in SF Phosphates in Rock Springs, Wyoming and Farmland Hydro, L.P., a phosphate production operation in Florida, and managing all company-wide transportation assets and services. On May 31, 2002, Farmland filed for Chapter 11 bankruptcy protection. Mr. Riemann served as a board member and board chairman on several industry organizations including the Phosphate Potash Institute, the Florida Phosphate Council, and the International Fertilizer

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Association. He currently serves on the Board of The Fertilizer Institute. Mr. Riemann received a bachelor of science from the University of Nebraska and an MBA from Rockhurst University.

James T. Rens has served as chief financial officer and treasurer of our company since September 2006, chief financial officer and treasurer of Coffeyville Acquisition since June 2005, chief financial officer and treasurer of Coffeyville Resources since February 2004 and chief financial officer and treasurer of Coffeyville Acquisition II and Coffeyville Acquisition III since October 2007. Since October 2007 Mr. Rens has also served as chief financial officer and treasurer of the managing general partner of the Partnership. Before joining our company, Mr. Rens was a consultant to the Original Predecessor s majority shareholder from November 2003 to March 2004, assistant controller at Koch Nitrogen Company from June 2003, which was when Koch acquired the majority of Farmland s nitrogen fertilizer business, to November 2003 and Director of Finance of Farmland s Crop Production and Petroleum Divisions from January 2002 to June 2003. From May 1999 to January 2002, Mr. Rens was Controller and chief financial officer of Farmland Hydro L.P. Mr. Rens has spent over 18 years in various accounting and financial positions associated with the fertilizer and energy industry. Mr. Rens received a Bachelor of Science degree in accounting from Central Missouri State University.

Edmund S. Gross has served as senior vice president, general counsel and secretary of our company since October 2007, senior vice president, general counsel and secretary of Coffeyville Acquisition II and Coffeyville Acquisition III since October 2007, vice president, general counsel and secretary of our company since September 2006, secretary of Coffeyville Acquisition since June 2005, and general counsel and secretary of Coffeyville Resources since July 2004. Since October 2007 Mr. Gross has also served as the senior vice president, general counsel, and secretary of the managing general partner of the Partnership. Prior to joining Coffeyville Resources, Mr. Gross was Of Counsel at Stinson Morrison Hecker LLP in Kansas City, Missouri from 2002 to 2004, was Senior Corporate Counsel with Farmland Industries, Inc. from 1987 to 2002 and was an associate and later a partner at Weeks, Thomas & Lysaught, a law firm in Kansas City, Kansas, from 1980 to 1987. Mr. Gross received a Bachelor of Arts degree in history from Tulane University, a Juris Doctor from the University of Kansas and an MBA from the University of Kansas.

Daniel J. Daly, Jr. has been our Executive Vice President, Strategy since December 2007 and our Senior Vice President, Accounting and Controls, since June 2005. From December 2004 to June 2005 Mr. Daly was self-employed as a consultant in mergers & acquisitions. From 1978 to 2001 Mr. Daly worked at Coastal Corporation, first as Manager of Transportation and Supply Operations and then as Controller, Refining Division and Vice President and Controller, Refining and Marketing. Following the merger of Coastal with El Paso in 2001, Mr. Daly served as Vice President and Controller of Tosco Corporation from January 2001 to December 2001. Mr. Daly received a B.S. in Commerce from St. Louis University.

Robert W. Haugen joined our business on June 24, 2005 and has served as executive vice president, refining operations at our company since September 2006 and as executive vice president engineering & construction at Coffeyville Resources, LLC since June 24, 2005. Since October 2007 Mr. Haugen has also served as executive vice president, refining operations at Coffeyville Acquisition LLC and Coffeyville Acquisition II LLC. Mr. Haugen brings 25 years of experience in the refining, petrochemical and nitrogen fertilizer business to our company. Prior to joining us, Mr. Haugen was a Managing Director and Partner of Prudentia Energy, an advisory and management firm focused on mid-stream/downstream energy sectors, from January 2004 to June 2005. On leave from Prudentia, he served as the Senior Oil Consultant to the Iraqi Reconstruction Management Office for the U.S. Department of State. Prior to joining Prudentia Energy, Mr. Haugen served in numerous engineering, operations, marketing and management positions at the Howell Corporation and at the Coastal Corporation. Upon the merger of Coastal and El Paso in 2001, Mr. Haugen was named Vice President and General Manager for the Coastal Corpus Christi Refinery, and later held the positions of Vice President of Chemicals and Vice President of Engineering and Construction. Mr. Haugen received a B.S. in Chemical Engineering from the University of Texas.

Wyatt E. Jernigan has served as executive vice president, crude oil acquisition and petroleum marketing at our company since September 2006 and as executive vice president crude & feedstocks at Coffeyville Resources, LLC since June 24, 2005. Since October 2007 Mr. Jernigan has also served as executive vice

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president, crude oil acquisition and petroleum marketing at Coffeyville Acquisition LLC and Coffeyville Acquisition II LLC. Mr. Jernigan has 30 years of experience in the areas of crude oil and petroleum products related to trading, marketing, logistics and business development. Most recently, Mr. Jernigan was Managing Director with Prudentia Energy, an advisory and management firm focused on mid-stream/downstream energy sectors, from January 2004 to June 2005. Most of his career was spent with Coastal Corporation and El Paso, where he held several positions in crude oil supply, petroleum marketing and asset development, both domestic and international. Following the merger between Coastal Corporation and El Paso in 2001, Mr. Jernigan assumed the role of Managing Director for Petroleum Markets Originations. Mr. Jernigan attended Virginia Wesleyan College, majoring in Sociology, and has training in petroleum fundamentals from the University of Texas.

Kevan A. Vick has served as executive vice president and fertilizer general manager at our company since September 2006, senior vice president at Coffeyville Resources Nitrogen Fertilizers, LLC since February 27, 2004 and executive vice president and fertilizer general manager of Coffeyville Acquisition III since October 2007. Since October 2007 Mr. Vick has also served as executive vice president and fertilizer general manager of the managing general partner of the Partnership. He has served on the board of directors of Farmland MissChem Limited in Trinidad and SF Phosphates. He has nearly 30 years of experience in the Farmland organization and is one of the most highly respected executives in the nitrogen fertilizer industry, known for both his technical expertise and his in-depth knowledge of the commercial marketplace. Prior to joining Coffeyville Resources LLC, he was general manager of nitrogen manufacturing at Farmland from January 2001 to February 2004. Mr. Vick received a bachelor of science in chemical engineering from the University of Kansas and is a licensed professional engineer in Kansas, Oklahoma, and Iowa.

Christopher G. Swanberg has served as vice president, environmental, health and safety at our company since September 2006, as vice president, environmental, health and safety at Coffeyville Resources since June 2005 and as vice president, environmental, health and safety at Coffeyville Acquisition II and Coffeyville Acquisition III since October 2007. Since October 2007 Mr. Swanberg has also served as vice president, environmental, health and safety at the managing general partner of the Partnership. He has served in numerous management positions in the petroleum refining industry such as Manager, Environmental Affairs for the refining and marketing division of Atlantic Richfield Company (ARCO), and Manager, Regulatory and Legislative Affairs for Lyondell-Citgo Refining. Mr. Swanberg s experience includes technical and management assignments in project, facility and corporate staff positions in all environmental, safety and health areas. Prior to joining Coffeyville Resources, he was Vice President of Sage Environmental Consulting, an environmental consulting firm focused on petroleum refining and petrochemicals, from September 2002 to June 2005 and Senior HSE Advisor of Pilko & Associates, LP from September 2000 to September 2002. Mr. Swanberg received a B.S. in Environmental Engineering Technology from Western Kentucky University and an MBA from the University of Tulsa.

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Item 1A. Risk Factors

You should carefully consider each of the following risks together with the other information contained in this Report and all of the information set forth in our filings with the SEC. If any of the following risks and uncertainties develops into actual events, our business, financial condition or results of operations could be materially adversely affected.

Risks Related to Our Petroleum Business

Volatile margins in the refining industry may cause volatility or a decline in our future results of operations and decrease our cash flow.

Our petroleum business financial results are primarily affected by the relationship, or margin, between refined product prices and the prices for crude oil and other feedstocks. Future volatility in refining industry margins may cause volatility or a decline in our results of operations, since the margin between refined product prices and feedstock prices may decrease below the amount needed for us to generate net cash flow sufficient for our needs. Although an increase or decrease in the price for crude oil generally results in a similar increase or decrease in prices for refined products, there is normally a time lag in the realization of the similar increase or decrease in prices for refined products. The effect of changes in crude oil prices on our results of operations therefore depends in part on how quickly and how fully refined product prices adjust to reflect these changes. A substantial or prolonged increase in crude oil prices without a corresponding increase in refined product prices, or a substantial or prolonged decrease in refined product prices without a corresponding decrease in crude oil prices, could have a significant negative impact on our earnings, results of operations and cash flows.

If we are required to obtain our crude oil supply without the benefit of our credit intermediation agreement, our exposure to the risks associated with volatile crude prices may increase and our liquidity may be reduced.

We currently obtain the majority of our crude oil supply through a crude oil credit intermediation agreement with J. Aron, which minimizes the amount of in transit inventory and mitigates crude pricing risks by ensuring pricing takes place extremely close to the time when the crude is refined and the yielded products are sold. In the event this agreement is terminated or is not renewed prior to expiration we may be unable to obtain similar services from another party at the same or better terms as our existing agreement. The current credit intermediation agreement expires on December 31, 2008 and will automatically extend for an additional one year term unless either party elects not to extend the agreement. Further, if we were required to obtain our crude oil supply without the benefit of an intermediation agreement, our exposure to crude pricing risks may increase, even despite any hedging activity in which we may engage, and our liquidity would be negatively impacted due to the increased inventory and the negative impact of market volatility.

Disruption of our ability to obtain an adequate supply of crude oil could reduce our liquidity and increase our costs.

Our refinery requires approximately 89,000 bpd of crude oil in addition to the light sweet crude oil we gather locally in Kansas and northern Oklahoma. We obtain a significant amount of our non-gathered crude oil, approximately 22% in 2007, from foreign sources such as Latin America, South America, the Middle East, West Africa, Canada and the North Sea. We are subject to the political, geographic, and economic risks attendant to doing business with suppliers located in those regions. Disruption of production in any of such regions for any reason could have a material impact on other regions and our business. In the event that one or more of our traditional suppliers becomes unavailable to us, we may be unable to obtain an adequate supply of crude oil, or we may only be able to obtain our crude oil supply at unfavorable prices. As a result, we may experience a reduction in our liquidity and our results of operations could be materially adversely affected.

Severe weather, including hurricanes along the U.S. Gulf Coast, could interrupt our supply of crude oil. For example, the hurricane season in 2005 produced a record number of named storms, including hurricanes Katrina and Rita. The location and intensity of these storms caused extreme amounts of damage to both crude

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and natural gas production as well as extensive disruption to many U.S. Gulf Coast refinery operations, although we believe that substantially most of this refining capacity has been restored. These events caused both price spikes in the commodity markets as well as substantial increases in crack spreads. Supplies of crude oil to our refinery are periodically shipped from U.S. Gulf Coast production or terminal facilities, including through the Seaway Pipeline from the U.S. Gulf Coast to Cushing, Oklahoma. U.S. Gulf Coast facilities could be subject to damage or production interruption from hurricanes or other severe weather in the future which could interrupt or materially adversely affect our crude oil supply. If our supply of crude oil is interrupted, our business, financial condition and results of operations could be materially adversely impacted.

Our profitability is linked to the light/heavy and sweet/sour crude oil price spreads. A decrease in either of the spreads would negatively impact our profitability.

Our profitability is linked to the price spreads between light and heavy crude oil and sweet and sour crude oil within our plant capabilities. We prefer to refine heavier sour crude oils because they have historically provided wider refining margins than light sweet crude. Accordingly, any tightening of the light/heavy or sweet/sour spreads could reduce our profitability. Crude oil prices may not remain at current levels and the light/heavy or sweet/sour spread may decline, which could result in a decline in profitability or operating losses.

The new and redesigned equipment in our facilities may not perform according to expectations, which may cause unexpected maintenance and downtime and could have a negative effect on our future results of operations and financial condition.

During 2007 we upgraded all of the units in our refinery by installing new equipment and redesigning older equipment to improve refinery capacity. The installation and redesign of key equipment involves significant risks and uncertainties, including the following:

- our upgraded equipment may not perform at expected throughput levels;
- the yield and product quality of new equipment may differ from design; and
- redesign or modification of the equipment may be required to correct equipment that does not perform as expected, which could require facility shutdowns until the equipment has been redesigned or modified.

In the second half of 2007 we also repaired certain of our equipment as a result of the flood. This repaired equipment is subject to similar risks and uncertainties as described above. Any of these risks associated with new equipment, redesigned older equipment, or repaired equipment could lead to lower revenues or higher costs or otherwise have a negative impact on our future results of operations and financial condition.

If our access to the pipelines on which we rely for the supply of our feedstock and the distribution of our products is interrupted, our inventory and costs may increase and we may be unable to efficiently distribute our products.

If one of the pipelines on which we rely for supply of our crude oil becomes inoperative, we would be required to obtain crude oil for our refinery through an alternative pipeline or from additional tanker trucks, which could increase our costs and result in lower production levels and profitability. Similarly, if a major refined fuels pipeline becomes inoperative, we would be required to keep refined fuels in inventory or supply refined fuels to our customers through an alternative pipeline or by additional tanker trucks from the refinery, which could increase our costs and result in a decline in profitability.

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Our petroleum business financial results are seasonal and generally lower in the first and fourth quarters of the year, which may cause volatility in the price of our common stock.

Demand for gasoline products is generally higher during the summer months than during the winter months due to seasonal increases in highway traffic and road construction work. As a result, our results of operations for the first and fourth calendar quarters are generally lower than for those for the second and third quarters, which may cause volatility in the price of our common stock. Further, reduced agricultural work during the winter months somewhat depresses demand for diesel fuel in the winter months. In addition to the overall seasonality of our business, unseasonably cool weather in the summer months and/or unseasonably warm weather in the winter months in the markets in which we sell our petroleum products could have the effect of reducing demand for gasoline and diesel fuel which could result in lower prices and reduce operating margins.

We face significant competition, both within and outside of our industry. Competitors who produce their own supply of feedstocks, have extensive retail outlets, make alternative fuels or have greater financial resources than we do may have a competitive advantage over us.

The refining industry is highly competitive with respect to both feedstock supply and refined product markets. We may be unable to compete effectively with our competitors within and outside of our industry, which could result in reduced profitability. We compete with numerous other companies for available supplies of crude oil and other feedstocks and for outlets for our refined products. We are not engaged in the petroleum exploration and production business and therefore we do not produce any of our crude oil feedstocks. We do not have a retail business and therefore are dependent upon others for outlets for our refined products. We do not have any long-term arrangements for much of our output. Many of our competitors in the United States as a whole, and one of our regional competitors, obtain significant portions of their feedstocks from company-owned production and have extensive retail outlets. Competitors that have their own production or extensive retail outlets with brand-name recognition are at times able to offset losses from refining operations with profits from producing or retailing operations, and may be better positioned to withstand periods of depressed refining margins or feedstock shortages.

A number of our competitors also have materially greater financial and other resources than us, providing them the ability to add incremental capacity in environments of high crack spreads. These competitors have a greater ability to bear the economic risks inherent in all phases of the refining industry. An expansion or upgrade of our competitors facilities, price volatility, international political and economic developments and other factors are likely to continue to play an important role in refining industry economics and may add additional competitive pressure on us.

In addition, we compete with other industries that provide alternative means to satisfy the energy and fuel requirements of our industrial, commercial and individual consumers. The more successful these alternatives become as a result of governmental regulations, technological advances, consumer demand, improved pricing or otherwise, the greater the impact on pricing and demand for our products and our profitability. There are presently significant governmental and consumer pressures to increase the use of alternative fuels in the United States.

Environmental laws and regulations will require us to make substantial capital expenditures in the future.

Current or future federal, state and local environmental laws and regulations could cause us to spend substantial amounts to install controls or make operational changes to comply with environmental requirements. In addition, future environmental laws and regulations, or new interpretations of existing laws or regulations, could limit our ability to market and sell our products to end users. Any such future environmental laws or governmental regulations could have a material impact on the results of our operations.

In March 2004, we entered into a Consent Decree with the EPA and KDHE to address certain allegations of Clean Air Act violations by Farmland at the Coffeyville oil refinery in order to reduce environmental risks and liabilities going forward. The overall costs of complying with the Consent Decree over the next four years are expected to be approximately $41 million. To date, we have met all deadlines and requirements of the Consent Decree and we have not had to pay any stipulated penalties, which are required to be paid for failure

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to comply with various terms and conditions of the Consent Decree. Availability of equipment and technology performance, as well as EPA interpretations of provisions of the Consent Decree that differ from ours, could have a material adverse effect on our ability to meet the requirements imposed by the Consent Decree.

We will incur capital expenditures over the next several years in order to comply with regulations under the federal Clean Air Act establishing stringent low sulfur content specifications for our petroleum products, including the Tier II gasoline standards, as well as regulations with respect to on- and off-road diesel fuel, which are designed to reduce air emissions from the use of these products. In February 2004, the EPA granted us a hardship waiver, which will require us to meet final low sulfur Tier II gasoline standards by January 1, 2011. Compliance with the Tier II gasoline standards and on-road diesel standards required us to spend approximately $133 million during 2006 and approximately $103 million during 2007, and we estimate that compliance will require us to spend approximately $69 million between 2008 and 2010. Changes in these laws or interpretations thereof could result in significantly greater expenditures.

Changes in our credit profile may affect our relationship with our suppliers, which could have a material adverse effect on our liquidity.

Changes in our credit profile may affect the way crude oil suppliers view our ability to make payments and may induce them to shorten the payment terms of their invoices. Given the large dollar amounts and volume of our feedstock purchases, a change in payment terms may have a material adverse effect on our liquidity and our ability to make payments to our suppliers.

We may have additional capital needs for which our internally generated cash flows and other sources of liquidity may not be adequate.

If we cannot generate cash flow or otherwise secure sufficient liquidity to support our short-term and long-term capital requirements, we may be unable to comply with certain environmental standards or pursue our business strategies, in which case our operations may not perform as well as we currently expect. We have substantial short-term and long-term capital needs, including capital expenditures we are required to make to comply with Tier II gasoline standards, on-road diesel regulations, off-road diesel regulations and the Consent Decree. Our short-term working capital needs are primarily crude oil purchase requirements, which fluctuate with the pricing and sourcing of crude oil. We also have significant long-term needs for cash, including deferred payments owed under derivative contracts we have entered into with J. Aron and debt repayment obligations. We currently estimate that mandatory capital and turnaround expenditures, excluding the non-recurring capital expenditures required to comply with Tier II gasoline standards, on-road diesel regulations, off-road diesel regulations and the Consent Decree described above, will average approximately $47 million per year over the next five years.

Risks Related to the Nitrogen Fertilizer Business

The nitrogen fertilizer business may not have sufficient cash to enable it to make quarterly distributions to us following the payment of expenses and fees and the establishment of cash reserves.

The nitrogen fertilizer business may not have sufficient cash each quarter to enable it to pay the minimum quarterly distribution or any distributions to us. The amount of cash the nitrogen fertilizer business can distribute on its units principally depends on the amount of cash it generates from its operations, which is primarily dependent upon the nitrogen fertilizer business selling quantities of nitrogen fertilizer at margins that are high enough to cover its fixed and variable expenses. The nitrogen fertilizer business costs, the prices it charges its customers, its level of production and, accordingly, the cash it generates from operations, will fluctuate from quarter to quarter based on, among other things, overall demand for its nitrogen fertilizer products, the level of foreign and domestic production of nitrogen

fertilizer products by others, the extent of government regulation and overall economic and local market conditions. In addition:

- The managing general partner of the nitrogen fertilizer business has broad discretion to establish reserves for the prudent conduct of the nitrogen fertilizer business. The establishment of those reserves could result in a reduction of the nitrogen fertilizer business distributions.

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The amount of distributions made by the nitrogen fertilizer business and the decision to make any distribution are determined by the managing general partner of the Partnership, whose interests may be different from ours. The managing general partner of the Partnership has limited fiduciary and contractual duties, which may permit it to favor its own interests to our detriment.

Although the partnership agreement requires the nitrogen fertilizer business to distribute its available cash, the partnership agreement may be amended.

Any credit facility that the nitrogen fertilizer business enters into may limit the distributions which the nitrogen fertilizer business can make. In addition, any credit facility may contain financial tests and covenants that the nitrogen fertilizer business must satisfy. Any failure to comply with these tests and covenants could result in the lenders prohibiting distributions by the nitrogen fertilizer business.

The actual amount of cash available for distribution will depend on numerous factors, some of which are beyond the control of the nitrogen fertilizer business, including the level of capital expenditures made by the nitrogen fertilizer business, the nitrogen fertilizer business debt service requirements, the cost of acquisitions, if any, fluctuations in its working capital needs, its ability to borrow funds and access capital markets, the amount of fees and expenses incurred by the nitrogen fertilizer business, and restrictions on distributions and on the ability of the nitrogen fertilizer business to make working capital and other borrowings for distributions contained in its credit agreements.

The amount of cash the nitrogen fertilizer business has available for distribution to us depends primarily on its cash flow and not solely on its profitability. If the nitrogen fertilizer business has insufficient cash to cover intended distribution payments, it would need to reduce or eliminate distributions to us or, to the extent permitted under agreements governing indebtedness that the nitrogen fertilizer business may incur in the future, fund a portion of its distributions with borrowings.

The amount of cash the nitrogen fertilizer business has available for distribution depends primarily on its cash flow, including working capital borrowings, and not solely on profitability, which will be affected by non-cash items. As a result, the nitrogen fertilizer business may make cash distributions during periods when it records losses and may not make cash distributions during periods when it records net income.

If the nitrogen fertilizer business does not have sufficient cash to cover intended distribution payments, it would either reduce or eliminate distributions or, to the extent permitted to do so under any revolving line of credit or other debt facility that the nitrogen fertilizer business may enter into in the future, fund a portion of its distributions with borrowings. If the nitrogen fertilizer business were to use borrowings under a revolving line of credit or other debt facility to fund distributions, it would have less cash available for future distributions and other purposes, including the funding of its ongoing expenses, its indebtedness levels would increase and its ongoing debt service requirements would increase. This could negatively impact the nitrogen fertilizer business financial condition, results of operations, ability to pursue its business strategy and ability to make future quarterly distributions. We cannot assure you that borrowings would be available to the nitrogen fertilizer business under a revolving line of credit or other debt facility to fund distributions.

The nitrogen fertilizer plant has high fixed costs. If nitrogen fertilizer product prices fall below a certain level, which could be caused by a reduction in the price of natural gas, the nitrogen fertilizer business may not generate sufficient revenue to operate profitably or cover its costs.

The nitrogen fertilizer plant has high fixed costs as discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Major Influences on Results of Operations Nitrogen Fertilizer Business. As a result, downtime or low productivity due to reduced demand, interruptions because of adverse weather conditions, equipment failures, low prices for nitrogen fertilizer products or other causes can result in significant operating losses. Unlike its competitors, whose primary costs are related to the purchase of natural gas and whose fixed costs are minimal, the nitrogen fertilizer business has high fixed costs not dependent on the price of natural gas. We have no control over natural gas prices, which can be highly volatile. A decline in natural gas prices generally has the effect of reducing the base sale price for nitrogen fertilizer products in the market generally while the nitrogen fertilizer business fixed costs will remain

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substantially unchanged by the decline in natural gas prices. Any decline in the price of nitrogen fertilizer products could have a material adverse effect on our results of operations, financial condition and the ability of the nitrogen fertilizer business to make cash distributions.

The nitrogen fertilizer business is cyclical and volatile, which exposes us to potentially significant fluctuations in our financial condition, cash flows and results of operations, which could result in volatility in the price of our common stock or an inability of the nitrogen fertilizer business to make quarterly distributions.

A significant portion of nitrogen fertilizer product sales consists of sales of agricultural commodity products, exposing us to fluctuations in supply and demand in the agricultural industry. These fluctuations historically have had and could in the future have significant effects on prices across all nitrogen fertilizer products and, in turn, the nitrogen fertilizer business financial condition, cash flows and results of operations, which could result in significant volatility in the price of our common stock or an inability of the nitrogen fertilizer business to make distributions to us. Nitrogen fertilizer products are commodities, the price of which can be volatile. The prices of nitrogen fertilizer products depend on a number of factors, including general economic conditions, cyclical trends in end-user markets, supply and demand imbalances, and weather conditions, which have a greater relevance because of the seasonal nature of fertilizer application. If seasonal demand exceeds the projections of the nitrogen fertilizer business, its customers may acquire nitrogen fertilizer from its competitors, and the profitability of the nitrogen fertilizer business will be negatively impacted. If seasonal demand is less than expected, the nitrogen fertilizer business will be left with excess inventory that will have to be stored or liquidated. Demand for