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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008**

**OR**

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

**FOR THE TRANSITION PERIOD FROM _________ TO _________**

**Commission file number: 001-32567**

# Alon USA Energy, Inc.

**(Exact name of Registrant as specified in its charter)**

| Delaware | 74-2966572 |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

7616 LBJ Freeway, Suite 300, Dallas, Texas 75251
**(Address of principal executive offices) (Zip Code)**

(972) 367-3600
**(Registrant's telephone number, including area code)**

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

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

| Large accelerated filer ☐ | Accelerated filer ☑ | Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |
|---|---|---|---|

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

The number of shares of the Registrant's common stock, par value $0.01 per share, outstanding as of July 31, 2008 was 46,814,021.

| | |
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Certification of CFO Pursuant to Section 302
Certification of CEO and CFO Pursuant to Section 906

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### ALON USA ENERGY, INC. AND SUBSIDIARIES
### CONSOLIDATED BALANCE SHEETS
### (dollars in thousands except per share data)

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 13,896 | $ 68,615 |
| Short-term investments | — | 27,296 |
| Accounts and other receivables, net | 277,091 | 228,987 |
| Income tax receivable | 55,564 | 35,244 |
| Inventories | 290,898 | 300,689 |
| Prepaid expenses and other current assets | 7,331 | 12,231 |
| Total current assets | 644,780 | 673,062 |
| Equity method investments | 42,196 | 40,092 |
| Property, plant and equipment, net | 878,599 | 713,592 |
| Goodwill | 105,943 | 105,943 |
| Other assets | 65,616 | 48,697 |
| Total assets | $1,737,134 | $ 1,581,386 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 427,622 | $ 291,339 |
| Accrued liabilities | 87,394 | 82,184 |
| Current portion of deferred gain on disposition of assets | — | 8,805 |
| Fair value of derivative liability | 24,500 | — |
| Current portion of long-term debt | 7,945 | 11,154 |
| Total current liabilities | 547,461 | 393,482 |
| Other non-current liabilities | 90,187 | 58,637 |
| Deferred gain on disposition of assets | — | 33,832 |
| Long-term debt | 571,017 | 525,461 |
| Deferred income tax liability | 180,132 | 166,052 |
| Total liabilities | 1,388,797 | 1,177,464 |
| Commitments and contingencies (note 16) | | |
| Minority interest in subsidiaries | 14,746 | 16,155 |
| Stockholders' equity: | | |
| Preferred stock, par value $0.01, 10,000,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, par value $0.01, 100,000,000 shares authorized; 46,814,021 and 46,808,444 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively | 468 | 468 |
| Additional paid-in capital | 183,294 | 182,932 |
| Accumulated other comprehensive loss, net of income tax | (43,576) | (8,135) |
| Retained earnings | 193,405 | 212,502 |
| Total stockholders' equity | 333,591 | 387,767 |
| Total liabilities and stockholders' equity | $1,737,134 | $ 1,581,386 |

The accompanying notes are an integral part of these consolidated financial statements.

**ALON USA ENERGY, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(unaudited, dollars in thousands except per share data)**

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net sales (1) | $ 1,244,671 | $ 1,187,181 | $2,265,434 | $2,153,086 |
| Operating costs and expenses: | | | | |
| Cost of sales | 1,252,392 | 929,575 | 2,221,389 | 1,740,836 |
| Direct operating expenses | 40,546 | 54,746 | 82,835 | 104,029 |
| Selling, general and administrative expenses | 27,802 | 27,522 | 56,656 | 50,060 |
| Net costs associated with fire | 9,374 | — | 25,836 | — |
| Depreciation and amortization | 13,507 | 11,153 | 27,252 | 25,595 |
| Total operating costs and expenses | 1,343,621 | 1,022,996 | 2,413,968 | 1,920,520 |
| Gain on involuntary conversion of assets | 96,588 | — | 96,588 | — |
| Gain on disposition of assets | 42,935 | 2,525 | 45,246 | 3,480 |
| Operating income (loss) | 40,573 | 166,710 | (6,700) | 236,046 |
| Interest expense | (10,736) | (11,669) | (21,392) | (23,087) |
| Equity earnings of investees | 1,292 | 3,936 | 1,608 | 4,540 |
| Other income, net | 373 | 2,291 | 1,118 | 3,181 |
| Income (loss) before income tax expense (benefit) and minority interest in income (loss) of subsidiaries | 31,502 | 161,268 | (25,366) | 220,680 |
| Income tax expense (benefit) | 11,860 | 59,650 | (9,233) | 81,621 |
| Income (loss) before minority interest in income (loss) of subsidiaries | 19,642 | 101,618 | (16,133) | 139,059 |
| Minority interest in income (loss) of subsidiaries | 1,415 | 6,005 | (782) | 7,881 |
| Net income (loss) | $ 18,227 | $ 95,613 | $ (15,351) | $ 131,178 |
| Earnings (loss) per share, basic | $ 0.39 | $ 2.05 | $ (0.33) | $ 2.81 |
| Weighted average shares outstanding (in thousands) | 46,782 | 46,758 | 46,782 | 46,758 |
| Cash dividends per share | $ 0.04 | $ 0.04 | $ 0.08 | $ 0.08 |

(1) Includes excise taxes on sales by the retail segment of $9,319 and $7,305 for the three months and $18,973 and $14,613 for the six months ended June 30, 2008 and 2007, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

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**ALON USA ENERGY, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(unaudited, dollars in thousands)**

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ (15,351) | $ 131,178 |
| Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 27,252 | 25,595 |
| Stock compensation | 222 | 2,140 |
| Deferred income tax expense | 30,605 | (417) |
| Minority interest in income (loss) of subsidiaries | (782) | 7,881 |
| Equity earnings of investees (net of dividends) | (239) | (2,095) |
| Gain on involuntary conversion of assets | (96,588) | — |
| Gain on disposition of assets | (45,246) | (3,480) |
| Changes in operating assets and liabilities, net of acquisition effects: | | |
| Accounts and other receivables, net | (74,244) | (116,956) |
| Inventories | 9,791 | 5,137 |
| Prepaid expenses and other current assets | (920) | 5,818 |
| Other assets | 549 | (645) |
| Accounts payable | 136,282 | 80,138 |
| Accrued liabilities | (9,337) | 27,317 |
| Other non-current liabilities | (4,070) | (2,703) |
| **Net cash (used in) provided by operating activities** | (42,076) | 158,908 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (19,524) | (17,667) |
| Capital expenditures to rebuild the Big Spring refinery | (160,341) | — |
| Turnaround and chemical catalyst expenditures | (2,069) | (5,137) |
| Acquisition of Skinny’s | — | (77,185) |
| Proceeds from insurance to rebuild the Big Spring refinery | 121,918 | — |
| Escrow deposit and costs relating to the Krotz Springs refinery acquisition | (18,283) | — |
| Sale of short-term investments, net | 27,296 | — |
| **Net cash used in investing activities** | (51,003) | (99,989) |
| **Cash flows from financing activities:** | | |
| Dividends paid to minority interest stockholders | (242) | (226) |
| Dividends paid to stockholders | (3,745) | (3,745) |
| Deferred debt issuance costs | — | (2,235) |
| Revolving credit facilities, net | 51,000 | — |
| Additions to long-term debt | — | 46,167 |
| Payments on long-term debt | (8,653) | (3,378) |
| **Net cash provided by financing activities** | 38,360 | 36,583 |
| **Net change in cash and cash equivalents** | (54,719) | 95,502 |
| Cash and cash equivalents, beginning of period | 68,615 | 64,166 |
| **Cash and cash equivalents, end of period** | $ 13,896 | $ 159,668 |
| **Supplemental cash flow information:** | | |
| Cash paid for interest | $ 19,674 | $ 19,819 |
| Cash paid for income tax, net of refunds | $ 22,229 | $ 48,972 |

The accompanying notes are an integral part of these consolidated financial statements.

**ALON USA ENERGY, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited, dollars in thousands except as noted)**

**(1) Basis of Presentation and Certain Significant Accounting Policies**

***(a) Basis of Presentation***

The consolidated financial statements include the accounts of Alon USA Energy, Inc. and its subsidiaries (collectively, "Alon" or the "Company"). All significant intercompany balances and transactions have been eliminated. These consolidated financial statements of Alon are unaudited and have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of Alon's management, the information included in these consolidated financial statements reflects all adjustments, consisting of normal and recurring adjustments, which are necessary for a fair presentation of Alon's consolidated financial position and results of operations for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the operating results that may be obtained for the year ending December 31, 2008.

The consolidated balance sheet as of December 31, 2007 has been derived from the audited financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Alon's Annual Report on Form 10-K for the year ended December 31, 2007.

***(b) Revenue Recognition***

Revenues from sales of refined products are earned and realized upon transfer of title to the customer based on the contractual terms of delivery (including payment terms and prices). Title primarily transfers at the refinery or terminal when the refined product is loaded into common carrier pipelines, trucks or railcars (free on board origin). In some situations, title transfers at the customer's destination (free on board destination).

In the ordinary course of business, logistical and refinery production schedules necessitate the occasional sale of crude oil to third parties. All purchases and sales of crude oil are recorded net, in cost of sales in the consolidated statements of operations.

***(c) New Accounting Standards***

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 161, *Disclosure about Derivative Instruments and Hedging Activities*, which established disclosure requirements for hedging activities. SFAS No. 161 requires that entities disclose the purpose and strategy for using derivative instruments, include discussion regarding the method for accounting for the derivative and the related hedged items under SFAS No. 133 and the derivative and related hedged items' effect on a company's financial statements. SFAS No. 161 also requires quantitative disclosures about the fair values of derivative instruments and their gains or losses in tabular format as well as discussion regarding contingent credit-risk features in derivative agreements and counterparty risk. The statement is effective for fiscal years, and interim periods within those fiscals years, beginning on or after November 15, 2008. Since SFAS No. 161 only affects disclosure requirements, there will be no effect on Alon's results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which requires that the purchase method of accounting be used for all business combinations. SFAS No. 141(R) requires most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in a business combination be recorded at "full fair value." SFAS No. 141(R) applies to all business combinations, including combinations by contract alone. SFAS No. 141(R) is effective for periods beginning on or after December 15, 2008 and earlier application is prohibited. SFAS No. 141(R) will be applied to business combinations occurring after the effective date and is not expected to have a material effect on Alon's results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB 51*, which requires non-controlling interests (previously referred to as minority

**ALON USA ENERGY, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited, dollars in thousands except as noted)**

interests) to be treated as a separate component of equity. SFAS No. 160 is effective for periods beginning on or after December 15, 2008, and earlier application is prohibited. SFAS No. 160 will be applied prospectively to all non-controlling interests, including any that arose before the effective date except that comparative period information must be recast to classify non-controlling interests in equity, attribute net income and other comprehensive income to non-controlling interests, and provide other disclosures required by SFAS No. 160. The application of SFAS No. 160 is not expected to have a material effect on Alon's results of operations or financial position.

Effective January 1, 2008, Alon adopted the provisions of SFAS No. 157, *Fair Value Measurements,* which pertain to certain balance sheet items measured at fair value on a recurring basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about such measurements that are permitted or required under other accounting pronouncements. While SFAS No. 157 may change the method of calculating fair value, it does not require any new fair value measurements.

In February 2008, the FASB issued FASB Staff Position 157-2, *Partial Deferral of the Effective Date of Statement 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. Alon is currently evaluating the impact of the provisions of FSP 157-2 on its financial statements which must be implemented effective January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material effect on Alon's results of operations or financial position.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN No. 48"). This interpretation prescribes a "more-likely-than-not" recognition threshold and measurement attribute (the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with tax authorities) for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provided guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN No. 48 did not have a material effect on Alon's results of operations or financial position as Alon has no unrecognized tax benefits.

In June 2006, the FASB ratified its consensus on EITF Issue No. 06-3; *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation).* The scope of EITF Issue No. 06-3 includes any tax assessed by a governmental authority that is imposed concurrent with or subsequent to a revenue-producing transaction between a seller and a customer. For taxes within the scope of this issue that are significant in amount, the consensus requires the following disclosures: (i) the accounting policy elected for these taxes and (ii) the amount of the taxes reflected gross in the income statement on an interim and annual basis for all periods presented. The disclosure of those taxes can be provided on an aggregate basis. Alon adopted the consensus on January 1, 2007. Alon's present excise taxes from convenience store sales is presented on a gross basis with supplemental information regarding the amount of such taxes included in net sales provided in a footnote on the face of the consolidated statements of operations. All other excise taxes are presented on a net basis in the consolidated statements of operations.

***d) Reclassifications***

Certain reclassifications have been made to the prior period balances to conform to the current presentation.

**ALON USA ENERGY, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited, dollars in thousands except as noted)**

**(2) Big Spring Refinery Fire**

On February 18, 2008, a fire at the Big Spring refinery destroyed the propylene recovery unit and damaged equipment in the alkylation and gas concentration units. The re-start of the crude unit in a hydroskimming mode began on April 5, 2008. The units destroyed and damaged in the fire are in the process of being rebuilt and repairs to damaged equipment are also underway. Alon's insurance policies provide a combined single limit of $385,000 for property damage, with a $2,000 deductible, and business interruption coverage with a 45 day waiting period. Alon also has third party liability insurance which provides coverage with a limit of $150,000 and a $5,000 deductible.

For purposes of financial reporting, Alon records costs associated with the fire on a pre-tax basis net of anticipated insurance recoveries and has reflected this as a separate line item on the consolidated statements of operations. For the three and six months ended June 30, 2008, Alon has recorded pre-tax costs of $9,374 and $25,836, respectively, associated with the fire. The components of the net costs as of June 30, 2008 include: $8,374 and $18,046 for the three and six months ended June 30, 2008, respectively, of expenses incurred from pipeline commitment deficiencies, crude sale losses and other incremental costs; $1,000 and $7,000 for the three and six months ended June 30, 2008, respectively, for Alon's insurance deductibles under the insurance policies described above; and depreciation for the temporarily idled facilities of $790 for the six months ended June 30, 2008.

Gross costs for which insurance recoveries have been recognized as of June 30, 2008 were $155,219, which includes costs associated with: the demolition of destroyed equipment and clean up of the impacted area; inspections and repairs to damaged facilities; losses of crude oil and product inventory and capital expenditures incurred in the rebuild efforts of the Big Spring refinery.

Alon has received $200,000 of insurance proceeds as advances on work performed with $150,000 received through June 2008 and $50,000 received in July 2008.

With the insurance proceeds received of $150,000 through June 30, 2008, an involuntary gain on conversion of assets has been recorded of $96,588 for the proceeds received in excess of the book value of the assets impaired of $25,330 and demolition and repair expenses of $28,082 incurred through June 30, 2008. Property, plant and equipment has increased in the second quarter of 2008 due to the rebuild efforts at the Big Spring refinery.

**(3) Acquisitions and Deferred Gain Recognition**

*Skinny's Acquisition*

On June 29, 2007, Alon completed the acquisition of Skinny's, Inc., a privately held Abilene, Texas-based company that owned and operated 102 stores in Central and West Texas. The purchase price for Skinny's, Inc. was $70,200 plus adjustments of $5,129 for working capital and debt. The total consideration was $75,329 after certain post-closing adjustments, which were finalized in the fourth quarter of 2007. Of the 102 stores, approximately two-thirds are owned and one-third are leased. Alon markets motor fuels sold at these stores primarily under the FINA brand and primarily supplies such fuels from its Big Spring refinery.

In conjunction with the Skinny's, Inc. acquisition, Alon completed a borrowing of $46,167 on June 29, 2007 under its Amended Wachovia Credit Facility (note 12).

The purchase price has been allocated as set forth below based on estimated fair values of the assets acquired and the goodwill assumed at the date of acquisition.

| | |
|---|---|
| Cash paid, net of unrestricted cash acquired | $74,787 |
| Transaction costs | 542 |
| Total purchase price | $75,329 |

**ALON USA ENERGY, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited, dollars in thousands except as noted)**

The purchase price was allocated as follows:

| | |
|---|---|
| Current assets, net of unrestricted cash acquired | $ 7,002 |
| Property, plant and equipment | 43,684 |
| Other assets | 771 |
| Goodwill | 34,471 |
| Intangibles | 827 |
| Current liabilities | (10,483) |
| Other non-current liabilities | (943) |
| Total purchase price | $ 75,329 |

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. Alon's expected discounted future value of cash flows and additional sales were the primary factors contributing to the recognition of goodwill.

*Pipeline Acquisition*

On June 29, 2007, Alon purchased a crude oil and unfinished products pipeline system from Kinder Morgan, Inc. known as the "Black Oil System" for a purchase price of $4,500. The Black Oil System includes approximately 6 miles of active and 13 miles of inactive pipelines in the Long Beach, California area.

*Deferred Gain Recognition*

A gain on disposition of assets of $42,935 recognized for the three and six months ended June 30, 2008 represented all the remaining deferred gain associated with the contribution of certain pipelines and terminals to Holly Energy Partners, LP ("HEP") in March 2005 and was due to the termination of an indemnification agreement with HEP.

**(4) Segment Data**

In the first quarter of 2008, Alon modified its presentation of segment data to reflect the following three operating segments: (i) refining and unbranded marketing, (ii) asphalt and (iii) retail and branded marketing. The branded marketing segment information historically included as part of the refining and marketing segment has been combined with the retail segment in contemplation of a planned reorganization later in 2008 to combine these businesses under a separating operating division within Alon. Prior segment results have been changed to conform to the current year presentation. The reportable operating segments are strategic business units that offer different products and services. The segments are managed separately as each segment requires unique technology, strategies and distinct operational emphasis. Each operating segment's performance is evaluated primarily based on operating income.

***(a) Refining and Unbranded Marketing Segment***

Alon's refining and unbranded marketing segment includes sour and heavy crude oil refineries located in Big Spring, Texas, and Paramount and Long Beach, California (the "California refineries"). At these refineries, Alon refines crude oil into products including gasoline, diesel, jet fuel, petrochemicals, feedstocks, asphalts and other petroleum products, which are marketed primarily in the South Central, Southwestern and Western regions of the United States. Finished products and blendstocks are also marketed through sales and exchanges with other major oil companies, state and federal governmental entities, unbranded wholesale distributors and various other third parties. Alon also acquires finished products through exchange agreements and third-party suppliers.

***(b) Asphalt Segment***

Alon's asphalt segment includes the Willbridge, Oregon refinery and 12 refinery/terminal locations in Texas (Big Spring), California (Paramount, Long Beach, Elk Grove, Bakersfield and Mojave), Oregon (Willbridge), Washington (Richmond Beach), Nevada (Fernley) (50% interest) and Arizona (Phoenix, Flagstaff and Fredonia) and a 50% interest in Wright Asphalt Products Company, LLC ("Wright") which specializes in marketing patented tire rubber modified asphalt products. Alon produces both paving and roofing grades of asphalt and, depending on the terminal, can manufacture performance-graded asphalts, emulsions and cutbacks. The operations in which Alon has a 50% interest (Fernley and Wright), are recorded under the equity method of accounting, and the investments are included as total assets in the asphalt segment data.

**ALON USA ENERGY, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited, dollars in thousands except as noted)**

***(c) Retail and Branded Marketing Segment***

Alon's retail and branded marketing segment operates 306 convenience stores located primarily in Central and West Texas and New Mexico. These convenience stores typically offer various grades of gasoline, diesel fuel, general merchandise and food and beverage products to the general public primarily under the 7-Eleven and FINA brand names. Alon's branded marketing business markets gasoline and diesel under the FINA brand name, primarily in the Southwestern and South Central United States through a network of approximately 1,070 locations, including Alon's convenience stores. Historically, substantially all of the motor fuel sold through Alon's convenience stores and approximately 55% of the motor fuels marketed in Alon's branded business were supplied by Alon's Big Spring refinery. As a result of the February 18, 2008 fire, branded marketing primarily acquired motor fuels from third-party suppliers during the period the refinery was down and to a lesser extent when the refinery began partial production on April 5, 2008.

***(d) Corporate***

Operations that are not included in any of the three segments are included in the corporate category. These operations consist primarily of corporate headquarter operating and depreciation expenses.

Segment data as of and for the three-month and six-month periods ended June 30, 2008 and 2007 are presented below:

| Three Months ended June 30, 2008 | Refining and Unbranded Marketing | Asphalt | Retail and Branded Marketing | Corporate | Consolidated Total |
|---|---|---|---|---|---|
| Net sales to external customers | $ 690,122 | $177,277 | $377,272 | $ — | $1,244,671 |
| Intersegment sales/purchases | 179,437 | (99,773) | (79,664) | — | — |
| Depreciation and amortization | 9,210 | 536 | 3,538 | 223 | 13,507 |
| Operating income (loss) | 38,462 | 2,653 | (168) | (374) | 40,573 |
| Total assets | 1,218,458 | 267,011 | 241,353 | 10,312 | 1,737,134 |
| Turnaround, chemical catalyst, capital expenditures and capital expenditures to rebuild the Big Spring refinery | 170,723 | 62 | 40 | 319 | 171,144 |

| Three Months ended June 30, 2007 | Refining and Unbranded Marketing | Asphalt | Retail and Branded Marketing | Corporate | Consolidated Total |
|---|---|---|---|---|---|
| Net sales to external customers | $ 663,174 | $ 181,445 | $342,562 | $ — | $1,187,181 |
| Intersegment sales/purchases | 159,724 | (112,832) | (46,892) | — | — |
| Depreciation and amortization | 8,882 | 558 | 1,512 | 201 | 11,153 |
| Operating income (loss) | 145,033 | 12,196 | 9,812 | (331) | 166,710 |
| Total assets | 1,023,628 | 385,386 | 249,023 | 8,185 | 1,666,222 |
| Turnaround, chemical catalyst and capital expenditures | 10,740 | 1,024 | 1,469 | 305 | 13,538 |

| Six Months ended June 30, 2008 | Refining and Unbranded Marketing | Asphalt | Retail and Branded Marketing | Corporate | Consolidated Total |
|---|---|---|---|---|---|
| Net sales to external customers | $1,297,691 | $ 281,217 | $ 686,526 | $ — | $2,265,434 |
| Intersegment sales/purchases | 343,907 | (201,692) | (142,215) | — | — |
| Depreciation and amortization | 18,840 | 1,068 | 6,898 | 446 | 27,252 |
| Operating income (loss) | (4,099) | 724 | (2,577) | (748) | (6,700) |
| Total assets | 1,218,458 | 267,011 | 241,353 | 10,312 | 1,737,134 |
| Turnaround, chemical catalyst, capital expenditures and capital expenditures to rebuild the Big Spring refinery | 180,034 | 275 | 1,167 | 458 | 181,934 |

| Six Months ended June 30, 2007 | Refining and Unbranded Marketing | Asphalt | Retail and Branded Marketing | Corporate | Consolidated Total |
|---|---|---|---|---|---|
| Net sales to external customers | $1,256,771 | $ 295,391 | $600,924 | $ — | $2,153,086 |
| Intersegment sales/purchases | 287,946 | (206,876) | (81,070) | — | — |
| Depreciation and amortization | 21,256 | 1,055 | 2,849 | 435 | 25,595 |
| Operating income (loss) | 207,774 | 18,457 | 10,467 | (652) | 236,046 |
| Total assets | 1,023,628 | 385,386 | 249,023 | 8,185 | 1,666,222 |
| Turnaround, chemical catalyst and capital expenditures | 19,253 | 1,160 | 1,964 | 427 | 22,804 |

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Operating income (loss) for each segment consists of net sales less cost of sales, direct operating expenses, selling, general and administrative expenses, net costs associated with fire, depreciation and amortization, gain on involuntary conversion of assets and gain on disposition of assets. Intersegment sales are intended to approximate wholesale market prices. Consolidated totals presented are after intersegment eliminations.

Total assets of each segment consist of net property, plant and equipment, inventories, cash, cash equivalents and short-term investments, accounts and other receivables, equity method investments, goodwill and other assets directly associated with the segment's operations. Corporate assets consist primarily of corporate headquarters information technology and administrative equipment.

**(5) Cash and Cash Equivalents**

Alon considers all highly liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates market value and are invested in conservative, highly-rated instruments issued by financial institutions or government entities with strong credit standings.

Short-term investments at December 31, 2007 consisted of highly-rated variable rate demand notes, and were sold during the quarter ended March 31, 2008.

**(6) Fair Value**

The carrying amounts of Alon's cash and cash equivalents, receivables, payables and accrued expenses approximate fair value due to the short-term maturities of these assets and liabilities. The reported amount of long-term debt approximates fair value. Derivative financial instruments are carried at fair value, which is based on quoted market prices.

In accordance with SFAS No. 157, Alon must determine fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As required, Alon utilizes valuation techniques that maximize the use of observable inputs (levels 1 and 2) and minimize the use of unobservable inputs (level 3) within the fair value hierarchy established by SFAS No. 157. Alon generally applies the "market approach" to determine fair value. This method uses pricing and other information generated by market transactions for identical or comparable assets and liabilities. Assets and liabilities are classified within the fair value hierarchy based on the lowest level (least observable) input that is significant to the measurement in its entirety.

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The following table sets forth the liabilities measured at fair value on a recurring basis, by input level, in the condensed consolidated balance sheet at June 30, 2008 and December 31, 2007, respectively:

| | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| **June 30, 2008** | | | | |
| Liabilities: | | | | |
| Futures and forwards | $ 2,706 | $ — | $ — | $ 2,706 |
| Commodity swaps | — | 52,966 | — | 52,966 |
| Interest rate swaps | — | 6,886 | — | 6,886 |
| **December 31, 2007** | | | | |
| Liabilities: | | | | |
| Futures and forwards | 4,250 | — | — | 4,250 |
| Interest rate swaps | — | 3,000 | — | 3,000 |

**(7) Derivative Financial Instruments**

*Commodity Derivatives — Mark to Market*

Alon selectively utilizes commodity derivatives to manage its exposure to commodity price fluctuations and uses crude oil and refined product commodity derivative contracts to reduce risk associated with potential price changes on committed obligations. Alon does not speculate using derivative instruments. Alon has elected not to designate the following commodity derivatives as cash flow hedges for financial accounting purposes. Therefore, changes in the fair value of the commodity derivatives are included in income in the period of the change. There is not a significant credit risk on Alon's derivative instruments which are transacted through counterparties meeting established collateral and credit criteria. Crude oil and refined product forward contracts are used to manage price exposure associated with transactions to supply crude oil to the refineries and to the sale of refined products.

At June 30, 2008, Alon held net forward contracts for purchases of 10,000 barrels of diesel and purchases and sales of 25,000 barrels of gasoline at an average price of $154.09 per barrel. These forward contracts were not designated as hedges for accounting purposes. Accordingly, the contracts are recorded at their fair market values and an unrealized loss of $58 has been included in cost of sales in the consolidated statements of operations for the three months ended June 30, 2008.

At June 30, 2008, Alon also held net futures contracts for sales of 285,000 barrels of crude oil and purchases and sales of 16,000 barrels of heating oil at an average price of $130.71 per barrel. At June 30, 2007, Alon held net futures contracts for sales of 120,000 barrels of crude oil, purchases and sales of 25,000 barrels of refined products and purchases and sales of 105,000 barrels of heating oil at an average price of $64.89 per barrel. These futures contracts were not designated as hedges for accounting purposes. Accordingly, the contracts are recorded at their fair market values and an unrealized loss of $2,649 and $695 has been included in cost of sales in the consolidated statements of operations for the three months ended June 30, 2008 and 2007, respectively.

*Cash Flow Hedges*

To designate a derivative as a cash flow hedge, Alon documents at the inception of the hedge the assessment that the derivative will be highly effective in offsetting expected changes in cash flows from the item hedged. This assessment, which is updated at least quarterly, is generally based on the most recent relevant historical correlation between the derivative and the item hedged. If, during the term of the derivative, the hedge is determined to be no longer highly effective, hedge accounting is prospectively discontinued and any remaining unrealized gains or losses, based on the effective portion of the derivative at that date, are reclassified to earnings when the underlying transaction occurs.

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*Interest Rate Derivatives*

Alon selectively utilizes interest rate related derivative instruments to manage its exposure to floating-rate debt instruments. Alon periodically uses interest rate swap agreements to manage its floating to fixed rate position by converting certain floating-rate debt to fixed-rate debt. As of June 30, 2008, Alon had interest rate swap agreements with a notional amount of $350,000 for notional periods of three to five years and fixed interest rates ranging from 4.25% to 4.75%. All of these swaps were accounted for as cash flow hedges.

For cash flow hedges, gains and losses reported in accumulated other comprehensive income in stockholders' equity are reclassified into interest expense when the forecasted transactions affect income. During the six months ended June 30, 2008, Alon recognized in accumulated other comprehensive income unrealized after-tax losses of $2,072 for the fair value measurement of the interest rate swaps. For the three and six months ended June 30, 2008, there were no amounts reclassified from accumulated other comprehensive income into interest expense as a result of the discontinuance of cash flow hedge accounting.

For the three and six months ended June 30, 2008, there was no hedge ineffectiveness recognized in income. No component of the derivative instruments' gains or losses was excluded from the assessment of hedge effectiveness.

*Commodity Derivatives*

In May 2008, as part of financing the acquisition of the Krotz Springs, Louisiana refinery (note 17), Alon entered into futures contracts for the forward purchase of crude oil and the forward sale of distillates of 14,849,750 barrels. These futures contracts were designated as cash flow hedges for accounting purposes. Gains and losses for the futures contracts designated as cash flow hedges reported in accumulated other comprehensive income in the balance sheet are reclassified into cost of sales when the forecasted transactions affect income. For the three and six months ended June 30, 2008, Alon recognized in accumulated other comprehensive income an unrealized after-tax loss of $33,364 related to these cash flow hedges. Any adjustments from accumulated comprehensive income to cost of sales will occur over a period of 27 months, beginning August 1, 2008, but the amount ultimately realized into income will differ as commodity prices change. For the three and six months ended June 30, 2008, there were no amounts reclassified from accumulated other comprehensive income to income as a result of the discontinuance of cash flow hedge accounting.

**(8) Inventories**

Alon's inventories are stated at the lower of cost or market. Cost is determined under the last-in, first-out (LIFO) method for crude oil, refined products, asphalt and blendstock inventories. Materials and supplies are stated at average cost. Cost for convenience store merchandise inventories is determined under the retail inventory method and cost for convenience store fuel inventories is determined under the first-in, first-out (FIFO) method.

Carrying value of inventories consisted of the following:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Crude oil, refined products, asphalt and blendstocks | $250,521 | $ 261,816 |
| Materials and supplies | 13,257 | 12,789 |
| Store merchandise | 17,828 | 18,197 |
| Store fuel | 9,292 | 7,887 |
| Total inventories | $290,898 | $ 300,689 |

Crude oil, refined products, asphalt and blendstock inventories totaled 4,824 barrels and 5,140 barrels as of June 30, 2008 and December 31, 2007, respectively.

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Market values exceeded LIFO costs by $304,364 and $136,755 at June 30, 2008 and December 31, 2007, respectively.

### (9) Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Refining facilities | $ 823,302 | $ 645,653 |
| Pipelines and terminals | 45,195 | 45,158 |
| Retail | 132,832 | 131,556 |
| Other | 12,321 | 12,271 |
| Property, plant and equipment, gross | 1,013,650 | 834,638 |
| Less accumulated depreciation | (135,051) | (121,046) |
| Property, plant and equipment, net | $ 878,599 | $ 713,592 |

### (10) Additional Financial Information

The tables that follow provide additional financial information related to the consolidated financial statements.

***(a) Other Assets***

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Deferred turnaround, chemical catalyst expenditures | $ 9,627 | $ 9,232 |
| Environmental receivables | 8,939 | 9,425 |
| Deferred debt issuance costs | 10,382 | 11,286 |
| Intangible assets | 7,334 | 7,488 |
| Escrow deposit and costs relating to the Krotz Springs refinery acquisition | 18,283 | — |
| Other | 11,051 | 11,266 |
| Total other assets | $65,616 | $ 48,697 |

***(b) Other Non-Current Liabilities***

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Pension and other post-employment benefit liabilities | $12,865 | $ 14,137 |
| Environmental liabilities | 33,356 | 34,992 |
| Fair value of derivative liability | 28,466 | — |
| Other | 15,500 | 9,508 |
| Total other non-current liabilities | $90,187 | $ 58,637 |

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***(c) Comprehensive Income***

The following table displays the computation of total comprehensive loss:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net income (loss) | $ 18,227 | $ 95,613 | $(15,351) | $131,178 |
| Other comprehensive loss, net of tax: | | | | |
| Adjustments for pension and post-employment benefits | — | — | — | — |
| Unrealized loss on cash flow hedges | (26,242) | — | (35,441) | — |
| Other comprehensive loss | (26,242) | — | (35,441) | — |
| Total comprehensive loss | $ (8,015) | $ 95,613 | $(50,792) | $131,178 |

The following table displays the components of accumulated other comprehensive loss, net of tax.

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Unrealized losses on cash flow hedges, net of tax | $(37,391) | $ (1,950) |
| Pension and post-employment benefits, net of tax | (6,185) | (6,185) |
| Accumulated other comprehensive loss, net of tax | $(43,576) | $ (8,135) |

**(11) Employee and Postretirement Benefits**

Alon has three defined benefit pension plans covering substantially all of its refining and unbranded marketing segment employees, excluding West Coast employees. Alon's funding policy is to contribute annually not less than the minimum required nor more than the maximum amount that can be deducted for federal income tax purposes. Alon's estimated contributions during 2008 to its pension plans has not changed significantly from amounts previously disclosed in Alon's consolidated financial statements for the year ended December 31, 2007. For the six months ended June 30, 2008 and 2007, Alon contributed $1,735 and $1,555, respectively, to its qualified pension plans.

The components of net periodic benefit cost related to Alon's benefit plans were as follows for the three and six months ended June 30, 2008 and 2007:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Components of net periodic benefit cost: | | | | |
| Service cost | $ 457 | $ 507 | $ 914 | $ 1,014 |
| Interest cost | 748 | 665 | 1,496 | 1,330 |
| Expected return on plan assets | (822) | (704) | (1,644) | (1,408) |
| Amortization of net loss | (147) | 134 | (94) | 268 |
| Net periodic benefit cost | $ 236 | $ 602 | $ 672 | $ 1,204 |

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**(12) Long-Term Debt**

A summary of Alon's long-term debt follows:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Term loan credit facility | $437,810 | $ 443,250 |
| Revolving credit facilities | 51,000 | — |
| Retail credit facilities | 90,152 | 93,365 |
| Total debt | 578,962 | 536,615 |
| Less current portion | (7,945) | (11,154) |
| Total long-term debt | $571,017 | $ 525,461 |

***(a) Credit Suisse Credit Facility***

On June 22, 2006, Alon entered into a Credit Agreement with Credit Suisse (the "Credit Suisse Credit Facility") with an aggregate available commitment of $450,000. On August 4, 2006, Alon borrowed $400,000 as a term loan upon consummation of the acquisition of Paramount Petroleum Corporation. On September 28, 2006, Alon borrowed an additional $50,000 as a term loan to finance the acquisition of Edgington Oil Company. The loans under the Credit Suisse Credit Facility will mature on August 2, 2013. Principal payments of $4,500 per annum are to be paid in quarterly installments. At June 30, 2008 and December 31, 2007, the outstanding balance was $437,810 and $443,250, respectively.

The borrowings under the Credit Suisse Credit Facility bear interest at a rate based on a margin over the Eurodollar rate from between 1.75% to 2.50% per annum based upon the ratings of the loans by Standard & Poor's Rating Service and Moody's Investors Service, Inc. Currently, the margin is 2.25% over the Eurodollar rate. The Credit Suisse Credit Facility is jointly and severally guaranteed by all of our subsidiaries except for our retail subsidiaries and those subsidiaries established in conjunction with the Krotz Springs refinery acquisition (note 17). The Credit Suisse Credit Facility is secured by a second lien on our cash, accounts receivable and inventory and a first lien on most of the remaining assets of Alon excluding those of our retail subsidiaries and those subsidiaries established in conjunction with the Krotz Springs refinery acquisition.

Alon may prepay all or a portion of all the outstanding loan balance under the Credit Suisse Credit Facility at any time with no prepayment premium.

The Credit Suisse Credit Facility contains restrictive covenants, such as restrictions on liens, mergers, consolidations, sales of assets, additional indebtedness, different businesses, certain lease obligations, and certain restricted payments. This facility does not contain any requirement to maintain financial covenants.

***(b) Revolving Credit Facilities***

*Israel Discount Bank Credit Facility.* Alon entered into an amended and restated revolving credit facility with Israel Discount Bank (the "IDB Credit Facility") on February 15, 2006, which was further amended and restated thereafter. The Israel Discount Bank of New York, or Israel Discount Bank, acts as administrative agent, co-arranger, collateral agent and lender, and Bank Leumi USA acts as co-arranger and lender under the revolving credit facility. The initial commitment of the lenders under the IDB Credit Facility is $160,000 with options to increase the commitment to $240,000 if crude oil prices increase above certain levels or Alon increases its throughput capacity of facilities owned by subsidiaries that are parties to the IDB Credit Facility. The size of the facility as of June 30, 2008 is $240,000, while the borrowing base at June 30, 2008 was $322,556.

The IDB Credit Facility will mature on January 1, 2010. Borrowings under the IDB Credit Facility bear interest at the Eurodollar rate plus 1.50% per annum. The IDB Credit Facility contains certain restrictive covenants including financial covenants. The IDB Credit Facility is secured by (i) a first lien on Alon's cash, accounts receivables, inventories and related assets, excluding those of Alon Paramount Holdings, Inc. ("Alon Holdings"), a subsidiary of Alon, and its subsidiaries other than Alon Pipeline Logistics, LLC ("Alon Logistics"), those subsidiaries established in conjunction with the Krotz Springs refinery acquisition and those of Alon's retail subsidiaries and

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(ii) a second lien on Alon's fixed assets excluding assets held by Alon Holdings, those subsidiaries established in conjunction with the Krotz Springs refinery acquisition and Alon's retail subsidiaries.

There was $27,000 outstanding under the IDB Credit Facility at June 30, 2008 and zero outstanding at December 31, 2007. As of June 30, 2008 and December 31, 2007, outstanding letters of credit under the IDB Credit Facility were $121,893 and $113,490, respectively.

*Bank of America Credit Facility.* On February 28, 2007, Paramount Petroleum Corporation entered into an amended and restated credit agreement ("Paramount Credit Facility") with Bank of America N.A. as agent, sole lead arranger and book manager, primarily secured by the assets of Alon Holdings (excluding Alon Logistics). Borrowing availability under the Paramount Credit Facility is limited at any time to the lesser of $300,000 or the amount of the borrowing base under the facility. At June 30, 2008, the borrowing base under the Paramount Credit Facility was $460,970. Amounts borrowed under the Paramount Credit Facility accrue interest at the London Interbank Offering Rate ("LIBOR") plus a margin based on excess availability. Based on the excess availability as of June 30, 2008, such margin would be 1.50%. The Paramount Credit Facility expires on February 28, 2012. Paramount Petroleum Corporation is required to comply with certain restrictive covenants related to working capital, operations and other matters under the Paramount Credit Facility.

There was $24,000 outstanding under the Paramount Credit Facility at June 30, 2008 and zero outstanding at December 31, 2007. As of June 30, 2008 and December 31, 2007, outstanding letters of credit under the Paramount Credit Facility were $153,025 and $90,557, respectively.

***(c) Retail Credit Facilities***

On June 29, 2007, Southwest Convenience Stores, LLC ("SCS"), a subsidiary of Alon, entered into an amended and restated credit agreement (the "Amended Wachovia Credit Facility"), by and among SCS, as borrower, the lender party thereto and Wachovia Bank, N. A. ("Wachovia"), as Administrative Agent. The Amended Wachovia Credit Facility amends and restates the credit agreement dated June 6, 2006, among SCS and Wachovia (the "Original Credit Facility").

Borrowings under the Amended Wachovia Credit Facility bear interest at a Eurodollar rate plus 1.50% per annum. Principal payments under the Amended Wachovia Credit Facility began August 1, 2007 with monthly installments based on a 15-year amortization term. At June 30, 2008 and December 31, 2007, the outstanding balance of this loan was $89,194 and $92,361, respectively, and there were no further amounts available for borrowing.

Prior to the amendment, $48,833 was outstanding under the Original Credit Facility, consisting of a $28,833 term loan and a $20,000 revolving credit loan. In connection with the Skinny's acquisition, SCS converted the existing revolving credit loan of $20,000 to a term loan and drew down an additional $46,167 under the Amended Wachovia Credit Facility. This amount, and all previously outstanding amounts, was combined into a $95,000 term loan.

Obligations under the Amended Wachovia Credit Facility are jointly and severally guaranteed by Alon, Alon USA Interests, LLC, Skinny's, LLC and its subsidiaries and all of the subsidiaries of SCS. The obligations under the Amended Wachovia Credit Facility are secured by a pledge on substantially all of the assets of SCS and Skinny's, LLC and each of their subsidiaries, including cash, accounts receivable and inventory.

The Amended Wachovia Credit Facility also contains customary restrictive covenants on the activities, such as restrictions on liens, mergers, consolidations, sales of assets, additional indebtedness, investments, certain lease obligations and certain restricted payments. The Amended Wachovia Credit Facility also includes one annual financial covenant.

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***(d) Other Retail Related Credit Facilities***

In 2003, Alon obtained $1,545 in mortgage loans to finance the acquisition of new retail locations. The interest rates on these loans ranged between 5.5% and 9.7%, with 5 to 15 year payment terms. At June 30, 2008 and December 31, 2007, the outstanding balances were $958 and $1,005, respectively.

**(13) Stock-Based Compensation**

Alon has two employee incentive compensation plans, (i) the 2005 Incentive Compensation Plan and (ii) the 2000 Incentive Stock Compensation Plan.

***(a) 2005 Incentive Compensation Plan (share value in dollars)***

The 2005 Incentive Compensation Plan is a component of Alon's overall executive incentive compensation program. The 2005 Incentive Compensation Plan permits the granting of awards in the form of options to purchase common stock, stock appreciation rights, restricted shares of common stock, restricted common stock units, performance shares, performance units and senior executive plan bonuses to Alon's directors, officers and key employees. Other than the restricted stock grants and stock appreciation rights discussed below, there have been no stock-based awards granted under the 2005 Incentive Compensation Plan.

*Restricted Stock.* In August 2005, Alon granted awards of 10,791 shares of restricted stock and in November 2005 Alon granted an award of 12,500 shares of restricted stock, in each case to certain directors, officers and key employees in connection with Alon's initial public offering in July 2005. The participants were allowed to acquire shares at a discounted price of $12.00 per share with a grant date fair value of $16.00 per share for the August 2005 awards and $20.42 per share for the November 2005 award. In November 2005, Alon granted awards of 52,672 shares of restricted stock to certain officers and key employees with a grant date fair value of $20.42 per share. Non-employee directors are awarded an annual grant of shares of restricted stock valued at $25. All restricted shares granted under the 2005 Incentive Compensation Plan vest over a period of three years, assuming continued service at vesting.

Compensation expense for the restricted stock grants amounted to $62 for the six months ended June 30, 2008 and is included in our selling, general and administrative expenses. There is no material difference between intrinsic value under Opinion 25 and fair value under SFAS No. 123R for pro forma disclosure purposes.

The following table summarizes the restricted share activity from January 1, 2007:

| Restricted Shares: | Number of Shares | Weighted Average Grant Date Fair Values |
|---|---|---|
| Nonvested at January 1, 2007 | 49,079 | $ 20.27 |
| Granted | 2,001 | 37.51 |
| Vested | (24,162) | 20.06 |
| Forfeited | — | — |
| Nonvested at December 31, 2007 | 26,918 | $ 21.74 |
| Granted | 5,577 | 13.45 |
| Vested | (1,418) | 35.28 |
| Forfeited | — | — |
| Nonvested at June 30, 2008 | 31,077 | $ 19.63 |

As of June 30, 2008, there was $140 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 2005 Incentive Compensation Plan. That cost is expected to be recognized over a weighted-average period of 0.8 years. The fair value of shares vested to date in 2008 is $19.

*Stock Appreciation Rights*. In March 2007, Alon granted awards of 361,665 Stock Appreciation Rights ("SARs") to certain officers and key employees. The SARs have a grant price equal to $28.46, the closing price of Alon's common stock on the date of grant. SARs vest and become exercisable over a four-year vesting period as follows: 50% on the second anniversary of the date of grant, 25% on the third anniversary of the date of grant and 25% on the fourth anniversary of the date of grant. When exercised, SARs are convertible into shares of

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Alon common stock, the number of which will be determined at the time of exercise by calculating the difference between the closing price of Alon common stock on the date immediately prior to the exercise date and the grant price of the SARs (the "Spread"), multiplying the Spread by the number of SARs being exercised and then dividing the product by the closing price of Alon common stock on the date immediately prior to the exercise date.

Compensation expense for the SARs grants amounted to $545 and $342 for the six months ended June 30, 2008 and 2007, respectively.

***(b) 2000 Incentive Stock Compensation Plan***

On August 1, 2000, Alon Assets, Inc. ("Alon Assets") and Alon USA Operating, Inc. ("Alon Operating"), majority owned, fully consolidated subsidiaries of Alon, adopted the 2000 Incentive Stock Compensation Plan pursuant to which Alon's board of directors may grant stock options to certain officers and members of executive management. The 2000 Incentive Stock Compensation Plan authorized grants of options to purchase up to 16,154 shares of common stock of Alon Assets and 6,066 shares of common stock of Alon Operating. All authorized options were granted in 2000 and there have been no additional options granted under this plan. All stock options have ten-year terms. The options are subject to accelerated vesting and become fully exercisable if Alon achieves certain financial performance and debt service criteria. Upon exercise, Alon will reimburse the option holder for the exercise price of the shares and under certain circumstances the related federal and state taxes payable as a result of such exercises (gross-up liability). This plan was closed to new participants subsequent to August 1, 2000, the initial grant date. Total compensation expense recognized under this plan was ($385) and $1,665 for the six months ended June 30, 2008 and 2007, respectively.

The following table summarizes the stock option activity for Alon Assets and Alon Operating for the six months ended June 30, 2008 and for the year ended December 31, 2007 (weighted average exercise price in dollars):

| | Alon Assets | | Alon Operating | |
|---|---|---|---|---|
| | Number of Options Outstanding | Weighted Average Exercise Price | Number of Options Outstanding | Weighted Average Exercise Price |
| Outstanding at January 1, 2007 | 6,848 | $ 100 | 2,572 | $ 100 |
| Granted | — | — | — | — |
| Exercised | (1,632) | 100 | (613) | 100 |
| Outstanding at December 31, 2007 | 5,216 | 100 | 1,959 | 100 |
| Granted | — | — | — | — |
| Exercised | (404) | 100 | (152) | 100 |
| Outstanding at June 30, 2008 | 4,812 | $ 100 | 1,807 | $ 100 |

The intrinsic value of options exercised to date in 2008 is $771.

**(14) Stockholders' Equity (per share in dollars)**

*Common Stock Dividends*

On both March 14, 2008, and June 13, 2008, Alon paid a regular quarterly cash dividend of $0.04 per share on Alon's common stock.

**(15) Earnings (Loss) Per Share (per share in dollars)**

Basic earnings (loss) per share are calculated as net income (loss) divided by the average number of shares of common stock outstanding. Diluted earnings (loss) per share include the dilutive effect of restricted shares and SARs using the treasury stock method.

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The calculation of earnings (loss) per share, basic and diluted for the three and six months ended June 30, 2008 and 2007 is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net income (loss) | $ 18,227 | $ 95,613 | $(15,351) | $131,178 |
| Average number of shares of common stock outstanding | 46,782 | 46,758 | 46,782 | 46,758 |
| Dilutive restricted shares | 20 | 42 | — | 39 |
| Average number of shares of common stock outstanding assuming dilution | 46,802 | 46,800 | 46,782 | 46,797 |
| Earnings (loss) per share — basic | $ 0.39 | $ 2.05 | $ (0.33) | $ 2.81 |
| Earnings (loss) per share — diluted* | $ 0.38 | $ 2.00 | $ (0.33) | $ 2.76 |

* For the purpose of adjusting net income (loss) in the calculation of diluted earnings (loss) per share issued by Alon's subsidiaries, the effect for the three months ended June 30, 2008 was $675. The effects of the six months ended June 30, 2008 are anti-dilutive and therefore excluded from the calculation.

**(16) Commitments and Contingencies**

***(a) Commitments***

In the normal course of business, Alon has long-term commitments to purchase services such as natural gas, electricity and water for use by its refineries, terminals, pipelines and retail locations. Alon is also party to various refined product and crude oil supply and exchange agreements. These agreements are short-term in nature or provide terms for cancellation.

***(b) Contingencies***

Alon is involved in various claims and legal actions arising in the ordinary course of business. Alon believes the ultimate disposition of these matters will not have a material adverse effect on Alon's financial position, results of operations or liquidity.

***(c) Environmental***

Alon is subject to loss contingencies pursuant to federal, state, and local environmental laws and regulations. These rules regulate the discharge of materials into the environment and may require Alon to incur future obligations to investigate the effects of the release or disposal of certain petroleum, chemical, and mineral substances at various sites; to remediate or restore these sites; to compensate others for damage to property and natural resources and for remediation and restoration costs. These possible obligations relate to sites owned by Alon and associated with past or present operations. Alon is currently participating in environmental investigations, assessments, and cleanups under these regulations at service stations, pipelines, and terminals. Alon may in the future be involved in additional environmental investigations, assessments, and cleanups. The magnitude of future costs will depend on factors such as the unknown nature and contamination at many sites, the unknown timing, extent and method of the remedial actions which may be required, and the determination of Alon's liability in proportion to other responsible parties.

Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated. Substantially all amounts accrued are expected to be paid out over the next five to ten years. The level of future expenditures for environmental remediation obligations is impossible to determine with any degree of reliability.

Alon has accrued environmental remediation obligations of $36,308 ($2,952 current payable and $33,356 non-current liability) at June 30, 2008 and $37,944 ($2,952 current payable and $34,992 non-current liability) at December 31, 2007.

ALON USA ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, dollars in thousands except as noted)

Paramount Petroleum Corporation has indemnification agreements with a prior owner for part of the remediation expenses at its refineries and offsite tank farm and, as a result, has recorded a current receivable of $1,615 and non-current receivable of $8,207 at June 30, 2008.

In connection with the acquisition of the Big Spring refinery, pipeline and terminal assets from Atofina Petrochemicals, Inc. (“Atofina”) in August 2000, Atofina agreed to indemnify Alon for the costs of environmental investigations, assessments and clean-ups of known conditions that existed at the acquisition date, and as a result, has recorded a current receivable of $1,500 and non-current receivable of $732 at June 30, 2008.

**(17) Subsequent Event**

*Acquisition of Krotz Springs Refinery*

On July 3, 2008, Alon completed the acquisition of a refinery located in Krotz Springs, Louisiana, from Valero Energy Corporation (“Valero”). The purchase price was $333,000 in cash plus approximately $140,000 for working capital, including inventories. The completion of the Krotz Springs refinery acquisition is expected to increase Alon’s crude refining capacity by 50% to approximately 250,000 barrels per day (“bpd”) including four refineries located on the West Coast, West Texas and Gulf Coast.

The Krotz Springs refinery, with a nameplate crude capacity of approximately 83,100 bpd, supplies multiple demand centers in the Southeast and East Coast markets through the low-cost Colonial pipeline. The 2007 refined product mix from the Krotz Springs refinery consisted of approximately 96% light products, with the following yields: 44% gasoline, 44% distillates and light cycle oils, 8% petrochemicals and 4% of heavy products.

Alon, through a subsidiary, Alon Refining Krotz Springs, Inc., (“ARKS”), entered into a $302,000 term loan to finance a portion of the acquisition and provide collateral for a commodity hedge program. The term loan borrowings bear interest at a rate of Eurodollar plus 7.50% per annum (subject to a Eurodollar floor of 3.25%) with interest payments due periodically. The term loan matures July 3, 2014.

ARKS may prepay all or a portion of the outstanding loan balance under this term loan at any time with no prepayment premium.

In addition, Bank of America arranged a $400,000 revolving credit facility with a $100,000 accordion feature to purchase initial inventories and support ongoing working capital needs. At closing, ARKS borrowed approximately $143,000 under the facility to finance a portion of the acquisition. The Bank of America facility bears interest at LIBOR plus an applicable margin. The margin is determined quarterly by reference to the fixed charge coverage ratio of ARKS. The applicable margin is fixed at 2% until March 31, 2009. The facility terminates on July 3, 2013.

Funds for a portion of the purchase price were provided through an $80,000 equity investment by Alon Israel Oil Company, Ltd. in preferred stock of a new Alon holding company subsidiary, which may be exchanged for shares of Alon common stock after three years. The shares of the new subsidiary have a par value of $1,000.00 per share and accrue dividends at a rate of 10.75% per annum. The dividends are payable quarterly. In addition, Alon Israel Oil Company, Ltd. provided for the issuance of $55,000 in letters of credit to support increased borrowing capacity under the Bank of America revolving credit facility. A committee of independent and disinterested members of Alon’s board of directors negotiated and approved these transactions.

In connection with the acquisition, Alon and Valero entered into an earnout agreement that provides for up to three annual payments to Valero, based upon the average market prices for crude oil, regular unleaded gasoline and ultra low sulfur diesel for the immediately preceding twelve month period, as compared to established minimum thresholds.

Alon and Valero also entered into an offtake agreement that provides for Valero to purchase at market prices, certain specified products and other products as may be mutually agreed upon from time to time. These products include regular and premium unleaded gasoline, ultra low sulfur diesel, jet fuel, light cycle oil, high sulfur No. 2 blendstock, butane/butylene, poly C4, normal butane, LPG mix, propane/propylene, high sulfur slurry, low

sulfur atmospheric tower bottoms and ammonium thiosulfate. The term of the offtake agreement as it applies to the products produced by the refinery is as follows: (i) five years for light cycle oil and straight run diesel; (ii) one year for regular and premium unleaded gasoline; and (iii) three months for the remaining refined products.

*Credit Agreement*

On July 30, 2008, Alon entered into an unsecured credit facility for the issuance of letters of credit in an amount not to exceed $60,000. Letters of credit issued under this facility are to be used by Alon to support the purchase of crude oil for the Big Spring refinery. This facility will terminate on January 1, 2010, unless terminated earlier as provided for in the credit agreement.

*SemGroup, LP Bankruptcy*

Alon has potential exposure from product sales for the months of June and July 2008 to subsidiaries of SemGroup, L.P. (together "SemGroup"). On July 21, 2008, SemGroup filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code under Case Number 08-11525 (BLS) in the United States Bankruptcy Court for the District of Delaware.

As of July 21, 2008, Alon had a receivable balance of approximately $40,000 prior to any offsetting amounts due Alon from SemGroup. Alon is pursuing various legal remedies to protect its interests. Alon is currently unable to quantify the amount of the receivable balance, if any, that is uncollectible.

*Dividend Declared*

On August 6, 2008, Alon declared its regular quarterly cash dividend of $0.04 per share on Alon's common stock, payable on September 12, 2008 to stockholders of record at the close of business on August 29, 2008.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007. In this document, the words "Alon," "the Company," "we" and "our" refer to Alon USA Energy, Inc. and its subsidiaries.*

**Forward-Looking Statements**

Certain statements contained in this report and other materials we file with the SEC, or in other written or oral statements made by us, other than statements of historical fact, are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. We have used the words "anticipate," "assume," "believe," "budget," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "will," "future" and similar terms and phrases to identify forward-looking statements.

Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Some of these expectations may be based upon assumptions or judgments that prove to be incorrect. In addition, our business and operations involve numerous risks and uncertainties, many of which are beyond our control, which could result in our expectations not being realized or otherwise materially affect our financial condition, results of operations and cash flows.

Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, the following:

- changes in general economic conditions and capital markets;
- changes in the underlying demand for our products;
- the availability, costs and price volatility of crude oil, other refinery feedstocks and refined products;
- changes in the sweet/sour spread;
- changes in the light/heavy spread;
- the effects of transactions involving forward contracts and derivative instruments;
- actions of customers and competitors;
- changes in fuel and utility costs incurred by our facilities;
- disruptions due to equipment interruption, pipeline disruptions or failure at our or third-party facilities;
- the execution of planned capital projects;
- adverse changes in the credit ratings assigned to our trade credit and debt instruments;
- the effects of and cost of compliance with current and future state and federal environmental, economic, safety and other laws, policies and regulations;
- operating hazards, natural disasters, casualty losses and other matters beyond our control;
- our planned projects to bring back online the naphtha hydrotreater and the design and construction of a hydrocracker unit at our California refineries may not be completed within the expected time frames or within the budgeted costs for such projects due to factors outside of our control;

- with respect to the February 18, 2008 explosion and fire at our Big Spring refinery, the resulting damage to equipment and disruption to operations may be greater than currently anticipated; the costs and time necessary to resume full operations may be greater than currently anticipated or may be increased due to factors outside of our control, and we may not fully recover all costs, expenses and damages resulting from the incident under applicable insurance policies; and
- the other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2007 under the caption "Risk Factors."

Any one of these factors or a combination of these factors could materially affect our future results of operations and could influence whether any forward-looking statements ultimately prove to be accurate. Our forward-looking statements are not guarantees of future performance, and actual results and future performance may differ materially from those suggested in any forward-looking statements. We do not intend to update these statements unless we are required by the securities laws to do so.

**Company Overview**

We are an independent refiner and marketer of petroleum products operating primarily in the South Central, Southwestern and Western regions of the United States. Our four sour and heavy crude oil refineries are located in Texas, California, Oregon and Louisiana and have a combined throughput capacity of approximately 250,000 barrels per day ("bpd"). Our refineries produce petroleum products including various grades of gasoline, diesel fuel, jet fuel, petrochemicals, feedstocks, asphalt, and other petroleum-based products.

In the first quarter of 2008, we modified our presentation of segment data to reflect the following three operating segments: (i) refining and unbranded marketing, (ii) asphalt and (iii) retail and branded marketing. The branded marketing segment information historically included as part of the refining and marketing segment has been combined with the retail segment. Prior segment results have been changed to conform with the current year presentation.

*Refining and Unbranded Marketing Segment.* Our refining and unbranded marketing segment includes sour and heavy crude oil refineries that are located in Big Spring, Texas, and Paramount and Long Beach, California (the "California refineries"). These refineries have a combined throughput capacity of approximately 158,000 bpd. At these refineries we refine crude oil into petroleum products, including gasoline, diesel fuel, jet fuel, petrochemicals, feedstocks and asphalts, which are marketed primarily in the South Central, Southwestern and Western United States.

We market transportation fuels produced at our Big Spring refinery in West and Central Texas, Oklahoma, New Mexico and Arizona. We refer to this region as our physically integrated system because we supply our branded marketing and retail segment convenience stores and unbranded distributors in this region with motor fuels produced at our Big Spring refinery and distributed through a network of pipelines and terminals which we either own or have access to through leases or long-term throughput agreements.

*Asphalt Segment.* Our asphalt segment markets asphalt produced at our refineries included in the refining and unbranded marketing segment and at our Willbridge, Oregon refinery. Asphalt produced by the refineries in our refining and unbranded marketing segment is transferred to the asphalt segment at prices substantially determined by reference to the cost of crude oil, which is intended to approximate wholesale market prices.

In addition to the Willbridge, refinery our asphalt segment includes 12 refinery/terminal locations in Texas (Big Spring), California (Paramount, Long Beach, Elk Grove, Bakersfield and Mojave), Oregon (Willbridge), Washington (Richmond Beach), Nevada (Fernley) (50% interest) and Arizona (Phoenix, Flagstaff and Fredonia) and a 50% interest in Wright Asphalt Products Company, LLC ("Wright"). Wright specializes in marketing patented tire rubber modified asphalt products. We produce both paving and roofing grades of asphalt and, depending on the terminal, can manufacture performance-graded asphalts, emulsions and cutbacks. The locations with a 50% interest (Fernley and Wright), are recorded under the equity method of accounting, and the investments are included in the segment data total assets.

*Retail and Branded Marketing Segment.* Our retail and branded marketing segment operates 306 convenience stores primarily in Central and West Texas and New Mexico. These convenience stores typically offer various grades of gasoline, diesel fuel, general merchandise and food and beverage products to the general public,

primarily under the 7-Eleven and FINA brand names. Historically, substantially all of the motor fuel sold through our retail operations and approximately 55% of the motor fuel marketed in our branded business was supplied by our Big Spring refinery. As a result of the February 18, 2008 fire at our Big Spring refinery, branded marketing primarily acquired motor fuel from third-party suppliers during the period the refinery was down and to a lesser extent when the refinery began partial production on April 5, 2008. We market gasoline and diesel under the FINA brand name through a network of approximately 1,070 locations, including our convenience stores. Additionally, our retail and branded marketing segment licenses the use of the FINA brand name and provides credit card processing services to approximately 100 licensed locations that are not under fuel supply agreements with us. Branded distributors that are not part of our integrated supply system, primarily in East Texas and Arkansas, are supplied with motor fuels we obtain from third-party suppliers.

**Second Quarter Operational and Financial Highlights**

On February 18, 2008, a fire at the Big Spring refinery destroyed the propylene recovery unit and damaged equipment in the alkylation and gas concentration units. The re-start of the crude unit in a hydroskimming mode began on April 5, 2008. The units destroyed and damaged in the fire are in the process of being rebuilt and repairs to damaged equipment are also underway. Alon’s insurance policies provide a combined single limit of $385.0 million for property damage, with a $2.0 million deductible, and business interruption coverage with a 45 day waiting period. Alon also has third party liability insurance which provides coverage with a limit of $150.0 million and a $5.0 million deductible.

Second quarter 2008 operating income was $40.6 million, compared to operating income of $166.7 million in the same period last year. In addition to the losses incurred associated with the fire, the decrease in operating income for the second quarter of 2008 over the second quarter of 2007 includes lost margin opportunity with lower refinery throughput for the quarter at the Big Spring refinery. Operating income was also adversely affected by lower asphalt and refinery margins at the California refineries due to higher costs of crude oil. The California refineries throughput for the second quarter of 2008 continued at reduced rates due to the lower refining margins. Other operational and financial highlights for the second quarter of 2008 include the following:

- The second quarter of 2008 included a $42.9 million gain recognized on disposition of assets in connection with the contribution of certain pipeline and terminal assets to Holly Energy Partners, LP (“HEP”) in the first quarter of 2005 (“HEP transaction”). The gain recognized in the second quarter of 2008 represented all the remaining deferred gain associated with the HEP transaction and was due to the termination of an indemnification agreement with HEP. Additionally, the second quarter of 2008 included a gain of $96.6 million recognized from the involuntary conversion of assets due to the Big Spring refinery fire. Also, $5.5 million of after-tax losses were incurred for insurance deductibles and other incremental costs associated with the Big Spring refinery fire.

- The combined refineries throughput for the second quarter of 2008 averaged 70,244 bpd, consisting of an average of 32,390 bpd at the Big Spring refinery and an average of 37,854 bpd at the California refineries compared to a combined average of 135,977 bpd in the second quarter of 2007, consisting of an average of 72,660 bpd at the Big Spring refinery and an average of 63,317 bpd at the California refineries.

- Our average refinery operating margin for the Big Spring refinery decreased $31.39 per barrel to ($7.97) per barrel for the three months ended June 30, 2008, compared to $23.42 per barrel for the three months ended June 30, 2007. This decrease was attributable mainly to the fire on February 18, 2008 and to a lower Gulf Coast 3/2/1 crack spread which decreased by $13.28 per barrel to $12.95 per barrel for the three months ended June 30, 2008 compared to $26.23 per barrel for the three months ended June 30, 2007.

- The Big Spring refinery operated in a hydroskimming mode in the second quarter of 2008 due to the fire, which resulted in lower refinery light product yields. Light product yields were approximately 54% for the second quarter of 2008 and 84% for the second quarter of 2007.

- Our California refineries’ operating margin for the three months ended June 30, 2008 decreased $14.46 per barrel to ($6.23) per barrel, compared to $8.23 per barrel for the three months ended June 30, 2007. The decrease was primarily attributable to a 41.5% decrease in the West Coast 3/2/1 crack spread to $23.28 per barrel for the three months ended June 30, 2008 from $39.82 per barrel for the three months ended June 30,

2007 and to higher crude oil prices. MAYA crude oil increased $47.78 per barrel to $103.08 per barrel from $55.30 per barrel during the same period in 2007.

- The decreased margin environment for the second quarter of 2008 was partially offset by higher sweet/sour and light/heavy crude oil differentials. The average sweet/sour spread for the three months ended June 30, 2008 was $4.62 per barrel compared to $4.56 per barrel for the three months ended June 30, 2007. The average light/heavy spread for the three months ended June 30, 2008 was $20.92 per barrel compared to $9.58 per barrel for the three months ended June 30, 2007.
- Asphalt margins in the second quarter of 2008 were $35.76 per ton compared to $46.53 per ton in the second quarter of 2007. This decrease was primarily due to higher crude oil prices in the second quarter of 2008.
- On June 13, 2008, we paid a regular quarterly cash dividend of $0.04 per share on our common stock to stockholders of record at the close of business on May 30, 2008.

**Major Influences on Results of Operations**

*Refining and Unbranded Marketing*

Our earnings and cash flow from our refining and unbranded marketing segment are primarily affected by the difference between refined product prices and the prices for crude oil and other feedstocks. The cost to acquire crude oil and other feedstocks and the price of the refined products we ultimately sell depend on numerous factors beyond our control, including the supply of, and demand for, crude oil, gasoline and other refined products which, in turn, depend on, among other factors, changes in domestic and foreign economies, weather conditions, domestic and foreign political affairs, production levels, the availability of imports, the marketing of competitive fuels and government regulation. While our sales and operating revenues fluctuate significantly with movements in crude oil and refined product prices, it is the spread between crude oil and refined product prices, and not necessarily fluctuations in those prices that affect our earnings.

In order to measure our operating performance, we compare our per barrel refinery operating margins to certain industry benchmarks. We compare our Big Spring refinery's per barrel operating margin to the Gulf Coast and Group III, or mid-continent, 3/2/1 crack spreads. A 3/2/1 crack spread in a given region is calculated assuming that three barrels of a benchmark crude oil are converted, or cracked, into two barrels of gasoline and one barrel of diesel. We calculate the Gulf Coast 3/2/1 crack spread using the market values of Gulf Coast conventional gasoline and low-sulfur diesel and the market value of West Texas Intermediate, or WTI, a light, sweet crude oil. We calculate the Group III 3/2/1 crack spread using the market values of Group III conventional gasoline and low-sulfur diesel and the market value of WTI crude oil. We calculate the per barrel operating margin for our Big Spring refinery by dividing the Big Spring refinery's gross margin by its throughput volumes. Gross margin is the difference between net sales and cost of sales.

We compare our California refineries' per barrel operating margin to the West Coast 6/1/2/3 crack spread. A 6/1/2/3 crack spread is calculated assuming that six barrels of a benchmark crude oil are converted, or cracked, into one barrel of gasoline, two barrels of diesel and three barrels of fuel oil. We calculate the West Coast 6/1/2/3 crack spread using the market values of West Coast LA CARB pipeline gasoline, LA ultra low-sulfur pipeline diesel, LA 380 pipeline CST (fuel oil) and the market value of WTI crude oil. The per barrel operating margin of the California refineries is calculated by dividing the California refinery's gross margin by their throughput volumes. Another comparison to other West Coast refineries that we use is the West Coast 3/2/1 crack spread. This is calculated using the market values of West Coast LA CARB pipeline gasoline, LA ultra low-sulfur pipeline diesel and the market value of WTI crude oil.

Our Big Spring refinery and California refineries are capable of processing substantial volumes of sour crude oil, which has historically cost less than intermediate and sweet crude oils. We measure the cost advantage of refining sour crude oil at our refineries by calculating the difference between the value of WTI crude oil less the value of West Texas Sour, or WTS, a medium, sour crude oil. We refer to this differential as the sweet/sour spread. A widening of the sweet/sour spread can favorably influence the operating margin for each of our refineries. In addition, our California refineries are capable of processing significant volumes of heavy crude oils which historically have cost less than light crude oils. We measure the cost advantage of refining heavy crude oils by calculating the difference between the value of WTI crude oil less the value of MAYA crude, which we refer to as the light/heavy

spread. A widening of the light/heavy spread can favorably influence the refinery operating margins for our California refineries.

The results of operations from our refining and unbranded marketing segment are also significantly affected by our refineries' operating costs, particularly the cost of natural gas used for fuel and the cost of electricity. Natural gas prices have historically been volatile. For example, natural gas prices ranged between $8.64 and $5.38 per million British thermal units, or MMBTU, in 2007. Typically, electricity prices fluctuate with natural gas prices.

Demand for gasoline products is generally higher during summer months than during winter months due to seasonal increases in highway traffic. As a result, the operating results for our refining and unbranded marketing segment for the first and fourth calendar quarters are generally lower than those for the second and third calendar quarters. The effects of seasonal demand for gasoline are partially offset by seasonality in demand for diesel, which in our region is generally higher in winter months as east-west trucking traffic moves south to avoid winter conditions on northern routes.

Safety, reliability and the environmental performance of our refineries are critical to our financial performance. The financial impact of planned downtime, such as a turnaround or major maintenance project, is mitigated through a diligent planning process that considers product availability, margin environment and the availability of resources to perform the required maintenance.

The nature of our business requires us to maintain substantial quantities of crude oil and refined product inventories. Crude oil and refined products are essentially commodities, and we have no control over the changing market value of these inventories. Because our inventory is valued at the lower of cost or market value under the LIFO inventory valuation methodology, price fluctuations generally have little effect on our financial results.

*Asphalt*

Our earnings from our asphalt segment depend primarily upon the margin between the price at which we sell our asphalt and the transfer prices for asphalt produced at our refineries in the refining and unbranded marketing segment. Asphalt is transferred to our asphalt segment at prices substantially determined by reference to the cost of crude oil, which is intended to approximate wholesale market prices. The asphalt segment also conducts operations at and markets asphalt produced by our refinery located in Willbridge, Oregon. In addition to producing asphalt at our refineries, at times when refining margins are unfavorable we opportunistically purchase asphalt from other producers for resale. A portion of our asphalt sales are made using fixed price contracts for delivery of asphalt products at future dates. Because these contracts are priced at the market prices for asphalt at the time of the contract, a change in the cost of crude oil between the time we enter into the contract and the time we produce the asphalt can positively or negatively influence the earnings of our asphalt segment. Demand for paving asphalt products is higher during warmer months than during colder months due to seasonal increases in road construction work. As a result, the revenues for our asphalt segment for the first and fourth calendar quarters are expected to be lower than those for the second and third calendar quarters.

*Retail and Branded Marketing*

Our earnings and cash flows from our retail and branded marketing segment are primarily affected by merchandise and motor fuel sales and margins at our convenience stores and the motor fuel sales volumes and margins from sales to our FINA-branded distributors, together with licensing and credit card related fees generated from our FINA-branded distributors and licensees. Retail merchandise gross margin is equal to retail merchandise sales less the delivered cost of the retail merchandise, net of vendor discounts and rebates, measured as a percentage of total retail merchandise sales. Retail merchandise sales are driven by convenience, branding and competitive pricing. Motor fuel margin is equal to motor fuel sales less the delivered cost of fuel and motor fuel taxes, measured on a cents per gallon ("cpg") basis. Our motor fuel margins are driven by local supply, demand and competitor pricing. Our convenience store sales are seasonal and peak in the second and third quarters of the year, while the first and fourth quarters usually experience lower overall sales.

**Factors Affecting Comparability**

Our financial condition and operating results over the three and six months ended June 30, 2008 and 2007 have been influenced by the following factors which are fundamental to understanding comparisons of our period-to-period financial performance.

On February 18, 2008, our Big Spring refinery experienced a major fire, as discussed more fully in the Second Quarter Operational and Financial Highlights. On April 5, 2008, the refinery was able to begin partial operation in a 35,000 bpd hydroskimming mode. The major units brought back on line in April included the crude unit, reformer unit, distillate hydrotreater and jet fuel hydrotreater.

The California refineries operated at reduced throughput rates during the first half of 2008 due to lower refining margins.

In the second quarter of 2008, an involuntary gain on conversion of assets has been recorded of $96.6 million for the proceeds of $150.0 million received in excess of the book value of the assets impaired of $25.3 million and demolition and repair expenses of $28.1 million incurred through June 30, 2008.

The gain on the disposition of assets of $42.9 million recognized in the second quarter of 2008 represented all the remaining deferred gain associated with the HEP transaction and was due to the termination of an indemnification agreement with HEP.

On June 29, 2007, we completed the acquisition of Skinny's, Inc., a privately held Abilene, Texas-based company that owned and operated 102 stores in Central and West Texas. The total consideration was $75.3 million after certain post-closing adjustments, which were finalized in the fourth quarter of 2007. Of the 102 stores, approximately two-thirds are owned and one-third are leased. We market motor fuels sold at these stores primarily under the FINA brand and primarily supply such fuels from our Big Spring refinery. The acquisition of Skinny's, Inc. had no impact on our results for the three and six months ended June 30, 2007.

**Results of Operations**

*Net Sales*. Net sales consist primarily of sales of refined petroleum products through our refining and unbranded marketing and asphalt segments and sales of merchandise and motor fuels through our retail and branded marketing segment. For the refining and unbranded marketing segment, net sales consist of gross sales, net of customer rebates, discounts and excise taxes. Net sales for our refining and unbranded marketing segment also include intersegment sales to our asphalt and retail and branded marketing segments, which are eliminated through consolidation of our financial statements. Asphalt net sales consist of gross sales, net of discounts and applicable taxes. Retail net sales consist of gross merchandise sales less rebates, commissions and discounts, and gross fuel sales, including motor fuel taxes. For our petroleum and asphalt products, net sales are mainly affected by crude oil refined product prices and volume changes caused by operations. Our retail merchandise and motor fuel sales are affected primarily by competition and seasonal influences.

*Cost of Sales*. Refining and unbranded marketing cost of sales includes crude oil and other raw materials, inclusive of transportation costs. Asphalt cost of sales includes cost of purchased asphalt, blending materials and transportation costs. Retail cost of sales includes cost of sales for motor fuels and merchandise. Motor fuel cost of sales represents the net cost of purchased fuel, including transportation costs and associated motor fuel taxes. Merchandise cost of sales includes the delivered cost of merchandise purchases, net of merchandise rebates and commissions. Cost of sales excludes depreciation and amortization expense.

*Direct Operating Expenses*. Direct operating expenses, which relate to our refining and unbranded marketing and asphalt segments, include costs associated with the actual operations of our refineries, such as energy and utility costs, routine maintenance, labor, insurance and environmental compliance costs. Environmental compliance costs, including monitoring and routine maintenance, are expensed as incurred. All operating costs associated with our crude oil and product pipelines are considered to be transportation costs and are reflected as cost of sales.

*Selling, General and Administrative Expenses*. Selling, general and administrative, or SG&A, expenses consist primarily of costs relating to the operations of our convenience stores, including labor, utilities, maintenance and retail corporate overhead costs. Corporate overhead and marketing expenses for our refining and marketing and asphalt segments are also included in SG&A expenses.

## ALON USA ENERGY, INC. AND SUBSIDIARIES CONSOLIDATED

*Summary Financial Tables*. The following tables provide summary financial data and selected key operating statistics for Alon and our three operating segments for the three and six months ended June 30, 2008 and 2007. The summary financial data for our three operating segments does not include certain SG&A expenses and depreciation and amortization related to our corporate headquarters. The following data should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this Form 10-Q. All information in "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" except for Balance Sheet data as of December 31, 2007 is unaudited.

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (dollars in thousands, except per share data) | | | |
| **STATEMENT OF OPERATIONS DATA:** | | | | |
| Net sales | $ 1,244,671 | $ 1,187,181 | $2,265,434 | $2,153,086 |
| Operating costs and expenses: | | | | |
| Cost of sales | 1,252,392 | 929,575 | 2,221,389 | 1,740,836 |
| Direct operating expenses | 40,546 | 54,746 | 82,835 | 104,029 |
| Selling, general and administrative expenses (1) | 27,802 | 27,522 | 56,656 | 50,060 |
| Net costs associated with fire (2) | 9,374 | — | 25,836 | — |
| Depreciation and amortization (3) | 13,507 | 11,153 | 27,252 | 25,595 |
| Total operating costs and expenses | 1,343,621 | 1,022,996 | 2,413,968 | 1,920,520 |
| Gain on involuntary conversion of assets (4) | 96,588 | — | 96,588 | — |
| Gain on disposition of assets (5) | 42,935 | 2,525 | 45,246 | 3,480 |
| Operating income (loss) | 40,573 | 166,710 | (6,700) | 236,046 |
| Interest expense | (10,736) | (11,669) | (21,392) | (23,087) |
| Equity earnings of investees | 1,292 | 3,936 | 1,608 | 4,540 |
| Other income, net | 373 | 2,291 | 1,118 | 3,181 |
| Income (loss) before income tax expense (benefit) and minority interest in income (loss) of subsidiaries | 31,502 | 161,268 | (25,366) | 220,680 |
| Income tax expense (benefit) | 11,860 | 59,650 | (9,233) | 81,621 |
| Income (loss) before minority interest in income (loss) of subsidiaries | 19,642 | 101,618 | (16,133) | 139,059 |
| Minority interest in income (loss) of subsidiaries | 1,415 | 6,005 | (782) | 7,881 |
| Net income (loss) | $ 18,227 | $ 95,613 | $ (15,351) | $ 131,178 |
| Earnings (loss) per share | $ 0.39 | $ 2.05 | $ (0.33) | $ 2.81 |
| Weighted average shares outstanding (in thousands) | 46,782 | 46,758 | 46,782 | 46,758 |
| Cash dividends per share | $ 0.04 | $ 0.04 | $ 0.08 | $ 0.08 |
| **CASH FLOW DATA:** | | | | |
| Net cash provided by (used in): | | | | |
| Operating activities | $ 7,548 | $ 120,040 | $ (42,076) | $ 158,908 |
| Investing activities | (67,871) | (91,113) | (51,003) | (99,989) |
| Financing activities | 43,084 | 42,245 | 38,360 | 36,583 |
| **OTHER DATA:** | | | | |
| Adjusted EBITDA (6) | $ N/A | $ 181,565 | $ N/A | $ 265,882 |
| Capital expenditures (7) | 10,342 | 13,075 | 19,524 | 17,667 |
| Capital expenditures to rebuild the Big Spring refinery | 160,341 | — | 160,341 | — |
| Capital expenditures for turnaround and chemical catalyst | 460 | 463 | 2,069 | 5,137 |

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| **BALANCE SHEET DATA (end of period):** | | |
| Cash and cash equivalents | $ 13,896 | $ 95,911 |
| Working capital | 97,319 | 279,580 |
| Total assets | 1,737,134 | 1,581,386 |
| Total debt | 578,962 | 536,615 |
| Total stockholders’ equity | 333,591 | 387,767 |

(1) Includes corporate headquarters selling, general and administrative expenses of $151 and $130 for the three months ended June 30, 2008 and 2007, respectively, and $302 and $217 for the six months ended June 30, 2008 and 2007, respectively, which are not allocated to our three operating segments.

(2) Includes $8,374 and $18,046 for the three and six months ended June 30, 2008, respectively, of expenses incurred from pipeline commitment deficiencies, crude sale losses and other incremental costs; $1,000 and $7,000 for the three and six months ended June 30, 2008, respectively, for insurance deductibles under the insurance policies; and depreciation for the temporarily idled facilities of $790 for the six months ended June 30, 2008.

(3) Includes corporate depreciation and amortization of $223 and $201 for the three months ended June 30, 2008 and 2007, respectively, and $446 and $435 for the six months ended June 30, 2008 and 2007, respectively, which are not allocated to our three operating segments.

(4) With the insurance proceeds received of $150,000 through June 30, 2008, an involuntary gain on conversion of assets has been recorded of $96,588 for the proceeds received in excess of the book value of the assets impaired of $25,330 and demolition and repair expenses of $28,082 incurred through June 30, 2008.

(5) Gain on disposition of assets reported in the three and six months ended June 30, 2008 and 2007 includes the recognition of deferred gain recorded primarily in connection with the contribution of certain product pipelines and terminals to Holly Energy Partners, LP,(“HEP”), in March 2005 (“HEP transaction”). The gain recognized in the second quarter of 2008 represented all the remaining deferred gain associated with the HEP transaction and was due to the termination of an indemnification agreement with HEP.

(6) Adjusted EBITDA has not been presented for the three and six month periods ended June 30, 2008. Alon has historically provided Adjusted EBITDA during periods of normal operations because management believes it is helpful for investors to compare Alon’s operating results to other companies in our industry. Due to the limited operations of the Big Spring refinery following the February fire and the costs and expenses incurred to repair affected units, management does not believe a presentation of Adjusted EBITDA for the three and six month periods ended June 30, 2008 is meaningful or useful to investors.

For the three and six month periods ended June 30, 2007, Adjusted EBITDA represents earnings before minority interest in income of subsidiaries, income tax expense, interest expense, depreciation and amortization and gain on disposition of assets. Adjusted EBITDA is not a recognized measurement under GAAP; however, the amounts included in Adjusted EBITDA are derived from amounts included in our consolidated financial statements. Our management believes that the presentation of Adjusted EBITDA is useful to investors during periods of normal operations because it is frequently used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry. In addition, our management believes that Adjusted EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of Adjusted EBITDA generally eliminates the effects of minority interest in income of subsidiaries, income tax expense, interest expense, gain on disposition of assets and the accounting effects of capital expenditures and acquisitions, items that may vary for different companies for reasons unrelated to overall operating performance.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect the prior claim that minority stockholders have on the income generated by non-wholly-owned subsidiaries;
- Adjusted EBITDA does not reflect changes in or cash requirements for our working capital needs; and
- Our calculation of Adjusted EBITDA may differ from EBITDA calculations of other companies in our industry, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally.

The following table reconciles net income to Adjusted EBITDA for the three and six months ended June 30, 2007:

| | Three Months Ended June 30, 2007 | Six Months Ended June 30, 2007 |
|---|---|---|
| | (dollars in thousands) | |
| Net income | $ 95,613 | $ 131,178 |
| Minority interest in income of subsidiaries | 6,005 | 7,881 |
| Income tax expense | 59,650 | 81,621 |
| Interest expense | 11,669 | 23,087 |
| Depreciation and amortization | 11,153 | 25,595 |
| Gain on disposition of assets | (2,525) | (3,480) |
| Adjusted EBITDA | $ 181,565 | $ 265,882 |

(7) Includes corporate capital expenditures of $319 and $305 for the three months ended June 30, 2008 and 2007, respectively, and $458 and $427 for the six months ended June 30, 2008 and 2007, respectively, which are not allocated to our other three operating segments.

**REFINING AND UNBRANDED MARKETING SEGMENT (A)**

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (dollars in thousands, except per barrel data and pricing statistics) | | | |
| **STATEMENTS OF OPERATIONS DATA:** | | | | |
| Net sales (1) | $ 869,559 | $ 822,898 | $ 1,641,598 | $ 1,544,717 |
| Operating costs and expenses: | | | | |
| Cost of sales | 917,689 | 620,591 | 1,673,646 | 1,224,894 |
| Direct operating expenses | 30,668 | 42,790 | 61,141 | 81,237 |
| Selling, general and administrative expenses | 3,679 | 8,084 | 8,068 | 13,062 |
| Net costs associated with fire (2) | 9,374 | — | 25,836 | — |
| Depreciation and amortization | 9,210 | 8,882 | 18,840 | 21,256 |
| Total operating costs and expenses | 970,620 | 680,347 | 1,787,531 | 1,340,449 |
| Gain on involuntary conversion of assets (3) | 96,588 | — | 96,588 | — |
| Gain on disposition of assets (4) | 42,935 | 2,482 | 45,246 | 3,506 |
| Operating income (loss) | $ 38,462 | $ 145,033 | $ (4,099) | $ 207,774 |
| **KEY OPERATING STATISTICS:** | | | | |
| Total unbranded sales volume (bpd) | 55,727 | 95,432 | 59,717 | 95,793 |
| Per barrel of throughput: | | | | |
| Refinery operating margin — Big Spring (5) | $ (7.97) | $ 23.42 | $ (1.08) | $ 18.98 |
| Refinery operating margin — CA Refineries (5) | (6.23) | 8.23 | (4.03) | 7.49 |
| Refinery direct operating expense — Big Spring (6) | 3.98 | 3.34 | 4.91 | 3.60 |
| Refinery direct operating expense — CA Refineries (6) | 5.50 | 3.59 | 4.91 | 3.27 |
| Capital expenditures | 9,922 | 10,277 | 17,624 | 14,116 |
| Capital expenditures to rebuild the Big Spring refinery | 160,341 | — | 160,341 | — |
| Capital expenditures for turnaround and chemical catalyst | 460 | 463 | 2,069 | 5,137 |
| **PRICING STATISTICS:** | | | | |
| WTI crude oil (per barrel) | $ 124.00 | $ 64.88 | $ 111.00 | $ 61.43 |
| WTS crude oil (per barrel) | 119.38 | 60.32 | 106.35 | 57.16 |
| MAYA crude oil (per barrel) | 103.08 | 55.30 | 92.11 | 50.36 |
| Crack spreads (3/2/1) (per barrel): | | | | |
| Gulf Coast | $ 12.95 | $ 26.23 | $ 11.19 | $ 19.53 |
| Group III | 13.80 | 31.67 | 11.95 | 23.38 |
| West Coast | 23.28 | 39.82 | 19.91 | 36.17 |
| Crack spreads (6/1/2/3) (per barrel): | | | | |
| West Coast | $ (1.69) | $ 12.05 | $ (1.28) | $ 10.71 |
| Crude oil differentials (per barrel): | | | | |
| WTI less WTS | $ 4.62 | $ 4.56 | $ 4.65 | $ 4.27 |
| WTI less MAYA | 20.92 | 9.58 | 18.89 | 11.08 |
| Product price (dollars per gallon): | | | | |
| Gulf Coast unleaded gasoline | $ 3.067 | $ 2.215 | $ 2.749 | $ 1.923 |
| Gulf Coast low-sulfur diesel | 3.648 | 2.078 | 3.229 | 1.937 |
| Group III unleaded gasoline | 3.100 | 2.369 | 2.774 | 2.023 |
| Group III low-sulfur diesel | 3.644 | 2.159 | 3.233 | 2.013 |
| West Coast LA CARBOB (unleaded gasoline) | 3.427 | 2.650 | 3.059 | 2.456 |
| West Coast LA ultra low-sulfur diesel | 3.665 | 2.179 | 3.232 | 2.060 |
| Natural gas (per MMBTU) | 11.47 | 7.65 | 10.14 | 7.42 |

(A) In the first quarter of 2008, our branded marketing business was removed from the refining and marketing segment and combined with the retail segment. Information for the three and six months ended June 30, 2007 has been recast to provide a comparison to the current year results.

**THROUGHPUT AND YIELD DATA:**
**BIG SPRING**

| | For the Three Months Ended June 30, | | | | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2008 | | 2007 | |
| | bpd | % | bpd | % | bpd | % | bpd | % |
| Refinery throughput: | | | | | | | | |
| Sour crude | 27,126 | 83.7 | 62,058 | 85.4 | 26,080 | 84.6 | 60,347 | 87.4 |
| Sweet crude | 4,427 | 13.7 | 7,200 | 9.9 | 3,402 | 11.0 | 4,800 | 6.9 |
| Blendstocks | 837 | 2.6 | 3,402 | 4.7 | 1,348 | 4.4 | 3,929 | 5.7 |
| Total refinery throughput (7) | 32,390 | 100.0 | 72,660 | 100.0 | 30,830 | 100.0 | 69,076 | 100.0 |
| Refinery production: | | | | | | | | |
| Gasoline | 8,981 | 28.5 | 33,726 | 46.8 | 11,478 | 37.8 | 32,130 | 46.9 |
| Diesel/jet | 7,876 | 24.9 | 22,506 | 31.2 | 7,758 | 25.6 | 20,691 | 30.2 |
| Asphalt | 5,976 | 18.9 | 7,383 | 10.2 | 4,537 | 14.9 | 7,171 | 10.5 |
| Petrochemicals | 344 | 1.1 | 4,108 | 5.7 | 873 | 2.9 | 4,436 | 6.5 |
| Other | 8,394 | 26.6 | 4,427 | 6.1 | 5,720 | 18.8 | 4,042 | 5.9 |
| Total refinery production (8) | 31,571 | 100.0 | 72,150 | 100.0 | 30,366 | 100.0 | 68,470 | 100.0 |
| Refinery utilization (9) | | 45.1% | | 98.9% | | 43.0% | | 95.0% |

**THROUGHPUT AND YIELD DATA:**
**CALIFORNIA REFINERIES**

| | For the Three Months Ended June 30, | | | | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2008 | | 2007 | |
| | bpd | % | bpd | % | bpd | % | bpd | % |
| Refinery throughput: | | | | | | | | |
| Medium Sour crude | 11,837 | 31.3 | 22,956 | 36.3 | 11,269 | 29.9 | 22,213 | 36.3 |
| Heavy crude | 25,540 | 67.4 | 40,350 | 63.7 | 25,545 | 67.9 | 38,886 | 63.5 |
| Blendstocks | 477 | 1.3 | 11 | 0.0 | 818 | 2.2 | 153 | 0.2 |
| Total refinery throughput (7) | 37,854 | 100.0 | 63,317 | 100.0 | 37,632 | 100.0 | 61,252 | 100.0 |
| Refinery production: | | | | | | | | |
| Gasoline | 5,088 | 13.9 | 7,029 | 11.4 | 5,296 | 14.6 | 6,951 | 11.6 |
| Diesel/jet | 8,793 | 23.9 | 12,553 | 20.4 | 8,708 | 23.9 | 13,315 | 22.3 |
| Asphalt | 9,534 | 26.0 | 18,029 | 29.2 | 9,966 | 27.4 | 18,389 | 30.8 |
| Light unfinished | 0 | 0.0 | 4,333 | 7.0 | 0 | 0.0 | 3,423 | 5.7 |
| Heavy unfinished | 13,050 | 35.5 | 18,715 | 30.4 | 12,166 | 33.5 | 16,652 | 27.9 |
| Other | 271 | 0.7 | 990 | 1.6 | 234 | 0.6 | 994 | 1.7 |
| Total refinery production (8) | 36,736 | 100.0 | 61,649 | 100.0 | 36,370 | 100.0 | 59,724 | 100.0 |
| Refinery utilization (9) | | 51.6% | | 87.3% | | 50.8% | | 85.6% |

(1) Net sales include intersegment sales to our asphalt and retail and branded marketing segments at prices which approximate wholesale market prices. These intersegment sales are eliminated through consolidation of our financial statements.

(2) Includes $8,374 and $18,046 for the three and six months ended June 30, 2008, respectively, of expenses incurred from pipeline commitment deficiencies, crude sale losses and other incremental costs; $1,000 and $7,000 for the three and six months ended June 30, 2008, respectively, for insurance deductibles under the insurance policies; and depreciation for the temporarily idled facilities of $790 for the six months ended June 30, 2008.

(3) With the insurance proceeds received of $150,000 through June 30, 2008, an involuntary gain on conversion of assets has been recorded of $96,588 for the proceeds received in excess of the book value of the assets impaired of $25,330 and demolition and repair expenses of $28,082 incurred through June 30, 2008.

(4) Gain on disposition of assets reported in the three and six months ended June 30, 2008 and 2007 includes the recognition of deferred gain recorded primarily in connection with the contribution of certain product pipelines and terminals to Holly Energy Partners, LP ("HEP") in March 2005 ("HEP transaction"). The gain recognized in the second quarter of 2008 represented all the remaining deferred gain associated with the HEP transaction and was due to the termination of an indemnification agreement with HEP.

(5) Refinery operating margin is a per barrel measurement calculated by dividing the margin between net sales and cost of sales (exclusive of unrealized hedging gains and losses) attributable to each refinery by the refinery's throughput volumes. There were unrealized hedging losses of $3,186 and unrealized hedging gains of $1,602 for the California refineries for the three and six months ended June 30, 2008, respectively, and unrealized hedging gains of $67 and unrealized hedging losses of $442 for the California refineries for the three and six months ended June 30, 2007, respectively. Industry-wide refining results are driven and measured by the margins between refined product prices and the prices for crude oil, which are referred to as crack spreads. We compare our refinery operating margins to these crack spreads to assess our operating performance relative to other participants in our industry.

(6) Refinery direct operating expense is a per barrel measurement calculated by dividing direct operating expenses at our Big Spring and California refineries, exclusive of depreciation and amortization, by the applicable refinery's total throughput volumes.

(7) Total refinery throughput represents the total barrels per day of crude oil and blendstock inputs in the refinery production process.

(8) Total refinery production represents the barrels per day of various finished products produced from processing crude and other refinery feedstocks through the crude units and other conversion units at the refinery. Light product yields decreased at the Big Spring refinery for the three and six months ended June 30, 2008 due to the fire on February 18, 2008 and the re-start of the crude unit in a hydro skimming mode on April 5, 2008.

(9) Refinery utilization represents average daily crude oil throughput divided by crude oil capacity, excluding planned periods of downtime for maintenance and turnarounds. The decrease in refinery utilization at our Big Spring refinery for the three and six months end June 30, 2008 is due to the fire on February 18, 2008. Production ceased at the Big Spring refinery until the re-start of the crude unit in a hydroskimming mode on April 5, 2008. The decrease in refinery utilization at our California refineries is due to reduced throughput related to low refining margins.

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**ASPHALT SEGMENT**

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (dollars in thousands, except per ton data) | | | |
| **STATEMENTS OF OPERATIONS DATA:** | | | | |
| Net sales | $ 177,277 | $ 181,445 | $ 281,217 | $ 295,391 |
| Operating costs and expenses: | | | | |
| Cost of sales (1) | 163,474 | 155,480 | 255,609 | 251,275 |
| Direct operating expenses | 9,878 | 11,956 | 21,694 | 22,792 |
| Selling, general and administrative expenses | 736 | 1,259 | 2,122 | 1,816 |
| Depreciation and amortization | 536 | 558 | 1,068 | 1,055 |
| Total operating costs and expenses | 174,624 | 169,253 | 280,493 | 276,938 |
| Gain on disposition of assets | — | 4 | — | 4 |
| Operating income | $ 2,653 | $ 12,196 | $ 724 | $ 18,457 |
| **KEY OPERATING STATISTICS:** | | | | |
| Total sales volume (tons in thousands) | 386 | 558 | 665 | 916 |
| Sales price per ton | $ 459.27 | $ 325.17 | $ 422.88 | $ 322.48 |
| Asphalt margin per ton (2) | $ 35.76 | $ 46.53 | $ 38.51 | $ 48.16 |
| Capital expenditures | $ 62 | $ 1,024 | $ 275 | $ 1,160 |

(1) Cost of sales includes intersegment purchases of asphalt blends and motor fuels from our refining and unbranded marketing segment at prices, which approximate wholesale market prices. These intersegment purchases are eliminated through consolidation of our financial statements.

(2) Asphalt margin is a per ton measurement calculated by dividing the margin between net sales and cost of sales by the total sales volume. Asphalt margins are used in the asphalt industry to measure operating results related to asphalt sales.

**RETAIL AND BRANDED MARKETING SEGMENT (A)**

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (dollars in thousands, except per gallon data) | | | |
| **STATEMENTS OF OPERATIONS DATA:** | | | | |
| Net sales | $ 377,272 | $ 342,562 | $ 686,526 | $ 600,924 |
| Operating costs and expenses: | | | | |
| Cost of sales (1) | 350,666 | 313,228 | 636,041 | 552,613 |
| Selling, general and administrative expenses | 23,236 | 18,049 | 46,164 | 34,965 |
| Depreciation and amortization | 3,538 | 1,512 | 6,898 | 2,849 |
| Total operating costs and expenses | 377,440 | 332,789 | 689,103 | 590,427 |
| Gain (loss) on disposition of assets | — | 39 | — | (30) |
| Operating income (loss) | $ (168) | $ 9,812 | $ (2,577) | $ 10,467 |
| **KEY OPERATING STATISTICS:** | | | | |
| Integrated branded fuel sales (thousands of gallons) (2) | 54,931 | 65,977 | 109,089 | 132,648 |
| Integrated branded fuel margin (cents per gallon) (2) | 2.0 | 14.8 | 1.9 | 8.8 |
| Non-Integrated branded fuel sales (thousands of gallons) (2) | 37,182 | 54,713 | 75,451 | 107,162 |
| Non-Integrated branded fuel margin (cents per gallon) (2) | (2.1) | 2.4 | (1.1) | 1.3 |
| Number of stores (end of period) | 306 | 308 | 306 | 308 |
| Retail fuel sales (thousands of gallons) | 24,414 | 19,159 | 49,285 | 38,026 |
| Retail fuel sales (thousands of gallons per site per month) (3) | 27 | 31 | 27 | 31 |
| Retail fuel margin (cents per gallon) (4) | 19.2¢ | 20.5¢ | 18.8¢ | 20.1¢ |
| Retail fuel sales price (dollars per gallon) (5) | $ 3.77 | $ 3.01 | $ 3.43 | $ 2.67 |
| Merchandise sales | $ 68,314 | $ 48,069 | $ 128,552 | $ 90,109 |
| Merchandise sales (per site per month) (3) | 74 | 78 | 70 | 73 |
| Merchandise margin (6) | 31.5% | 28.9% | 31.5% | 29.6% |
| Capital expenditures | $ 40 | $ 1,469 | $ 1,167 | $ 1,964 |

(A) In the first quarter of 2008, our branded marketing business was removed from the refining and marketing segment and combined with the retail segment. Information for the three and six months ended June 30, 2007 has been recast to provide a comparison to the current year results.

(1) Cost of sales includes intersegment purchases of motor fuels from our refining and unbranded marketing segment at prices which approximate wholesale market prices. These intersegment purchases are eliminated through consolidation of our financial statements.

(2) Marketing sales volume represents branded fuel sales to our wholesale marketing customers located in both our integrated and non-integrated regions. The branded fuels we sell in our integrated region are primarily supplied by the Big Spring refinery, but more fuel has been from third-party suppliers due to the fire on February 18, 2008 at the Big Spring refinery. The branded fuels we sell in the non-integrated region are obtained from third-party suppliers. The marketing margin represents the margin between the net sales and cost of sales attributable to our branded fuel sales volume, expressed on a cents-per-gallon basis.

(3) Retail fuel and merchandise sales per site for the three and six month periods ending June 30, 2007 were calculated using 206 stores. We added 102 stores with the acquisition of Skinny's, Inc. on June 29, 2007, which are excluded from the calculation. Merchandise sales per site per month for the 102 stores were 67 and 60 for the three and six months ended June 30, 2008, respectively. Merchandise sales per site per month for the 204 stores were 78 and 74 for the three and six months ended June 30, 2008, respectively.

(4) Retail fuel margin represents the difference between motor fuel sales revenue and the net cost of purchased motor fuel, including transportation costs and associated motor fuel taxes, expressed on a cents-per-gallon basis. Motor fuel margins are frequently used in the retail industry to measure operating results related to motor fuel sales.

(5) Retail fuel sales price per gallon represents the average sales price for motor fuels sold through our retail convenience stores.

(6) Merchandise margin represents the difference between merchandise sales revenues and the delivered cost of merchandise purchases, net of rebates and commissions, expressed as a percentage of merchandise sales revenues. Merchandise margins, also referred to as in-store margins, are commonly used in the retail convenience store industry to measure in-store, or non-fuel, operating results.

***Three Months Ended June 30, 2008 Compared to the Three Months Ended June 30, 2007***

*Net Sales*

*Consolidated*. Net sales for the three months ended June 30, 2008 were $1,244.7 million, compared to $1,187.2 million for the three months ended June 30, 2007, an increase of $57.5 million or 4.8%. This increase was primarily due to increased prices in all segments due to higher prices for our refined products, partially offset by lower sales volumes.

*Refining and Unbranded Marketing Segment*. Net sales for our refining and unbranded marketing segment were $869.6 million for the three months ended June 30, 2008, compared to $822.9 million for the three months ended June 30, 2007, an increase of $46.7 million or 5.7%. This increase was primarily due to significantly higher prices, partially offset by lower sales volumes. The average price of Gulf Coast unleaded gasoline for the second quarter of 2008 increased approximately $0.85 per gallon to $3.067 per gallon, compared to $2.215 per gallon in the second quarter of 2007, an increase of 38.5%, and the average Gulf Coast low-sulfur diesel price increased by approximately $1.57 per gallon to $3.648 per gallon in the second quarter of 2008 as compared to $2.078 per gallon in the second quarter of 2007, an increase of 75.6%. Our average refinery throughput in Big Spring decreased by 40,270 bpd to 32,390 bpd in the second quarter of 2008, compared to 72,660 bpd during the first quarter of 2007 due to the fire on February 18, 2008. While our throughput decreased, we were able to meet supply commitments to our customers through third party purchases. Our average refinery throughput at the California refineries decreased by 25,463 bpd to 37,854 bpd in the first quarter of 2008 compared to 63,317 bpd in the first quarter of 2007 due to reduced production in response to lower refining margins.

*Asphalt Segment*. Net sales for our asphalt segment were $177.3 million for the three months ended June 30, 2008, compared to $181.4 million for the three months ended June 30, 2007, a decrease of $4.1 million or 2.3%. This decrease was primarily due to reduced refinery throughput in both the California refineries and the Big Spring refinery, partially offset by higher asphalt prices.

*Retail and Branded Marketing Segment*. Net sales for our retail and branded marketing segment were $377.3 million for the three months ended June 30, 2008 compared to $342.6 million for the three months ended June 30, 2007, an increase of $34.7 million or 10.1%. This increase was primarily attributable to higher prices gasoline and diesel fuel and the acquisition of 102 Skinny's convenience stores on June 29, 2007, and was partially offset by lower sales volumes.

*Cost of Sales*

*Consolidated*. Cost of sales was $1,252.4 million for the three months ended June 30, 2008, compared to $929.6 million for the three months ended June 30, 2007, an increase of $322.8 million or 34.7%. This increase was primarily due to increased costs in all segments due to higher crude oil prices and were partially offset by lower throughput.

*Refining and Unbranded Marketing Segment.* Cost of sales for our refining and marketing segment was $917.7 million for the three months ended June 30, 2008, compared to $620.6 million for the three months ended June 30, 2007, an increase of $297.1 million or 47.9% primarily related to higher crude oil prices, partially offset by lower throughput. The average price per barrel of WTS crude oil for the second quarter of 2008 increased $59.06 per barrel to $119.38 per barrel, compared to $60.32 per barrel for the second quarter of 2007, an increase of 97.9%. The average price per barrel of MAYA crude oil for the second quarter of 2008 increased $47.78 per barrel to $103.08, compared to $55.30 per barrel for the second quarter of 2007, an increase of 86.4%.

*Asphalt Segment*. Cost of sales for our asphalt segment was $163.5 million for the three months ended June 30, 2008, compared to $155.5 million for the three months ended June 30, 2007, an increase of $8.0 million or 5.1%. This increase was primarily due to the increased cost of crude oil, which results in higher transfer prices for asphalt, partially offset by lower asphalt sales.

*Retail Branded Marketing Segment.* Cost of sales for our retail and branded marketing segment was $350.7 million for the three months ended June 30, 2008, compared to $313.2 million for the three months ended June 30, 2007, an increase of $37.5 million or 12.0%. This increase was primarily due to increased motor fuel prices and to the acquisition of 102 Skinny's convenience stores on June 29, 2007.

*Direct Operating Expenses*

*Consolidated*. Direct operating expenses were $40.5 million for the three months ended June 30, 2008, compared to $54.7 million for the three months ended June 30, 2007, a decrease of $14.2 million or 26.0%.

*Refining and Unbranded Marketing Segment.* Direct operating expenses for our refining and unbranded marketing segment for the three months ended June 30, 2008 were $30.7 million, compared to $42.8 million for the three months ended June 30, 2007, a decrease of $12.1 million or 28.3%. This decrease was primarily due to reduced throughput in both the California refineries and the Big Spring refinery.

*Asphalt Segment.* Direct operating expenses for our asphalt segment for the three months ended June 30, 2008 were $9.9 million, compared to $12.0 million for the three months ended June 30, 2007, a decrease of $2.1 million or 17.5%. This decrease was primarily due to reduced throughput in both the California refineries and the Big Spring refinery.

*Selling, General and Administrative Expenses*

*Consolidated*. SG&A expenses for the three months ended June 30, 2008 were $27.8 million, compared to $27.5 million for the three months ended June 30, 2007, an increase of $0.3 million or 1.1%.

*Refining and Unbranded Marketing Segment*. SG&A expenses for our refining and unbranded marketing segment for the three months ended June 30, 2008 were $3.7 million, compared to $8.1 million for the three months ended June 30, 2007, a decrease of $4.4 million or 54.3%. This decrease was primarily due to reduced throughput in both the California refineries and the Big Spring refinery.

*Asphalt Segment*. SG&A expenses for our asphalt segment for the three months ended June 30, 2008 were $0.7 million, compared to $1.3 million for the three months ended June 30, 2007, a decrease of $0.6 million or 46.2%. This decrease was primarily due to reduced throughput in both the California refineries and the Big Spring refinery.

*Retail and Branded Marketing Segment*. SG&A expenses for our retail segment for the three months ended June 30, 2008 were $23.2 million, compared to $18.0 million for the three months ended June 30, 2007, an increase of $5.2 million or 28.9%. This increase was primarily attributable to the acquisition of 102 Skinny's convenience stores on June 29, 2007.

*Depreciation and Amortization*

Depreciation and amortization for the three months ended June 30, 2008 was $13.5 million, compared to $11.2 million for the three months ended June 30, 2007. This $2.3 million or 20.5% increase was primarily attributable to increased capital activity over the past year.

*Operating Income*

*Consolidated*. Operating income for the three months ended June 30, 2008 was $40.6 million, compared to $166.7 million operating income for the three months ended June 30, 2007, a decrease of $126.1 million or 75.6%. This decrease is primarily a result of reduced refining margin at both the California refineries and the Big Spring refinery.

*Refining and Unbranded Marketing Segment*. Operating income for the three months ended June 30, 2008 decreased by $106.5 million to $38.5 million compared to $145.0 million for the three months ended June 30, 2007.

Our Big Spring refinery operating margin for the second quarter of 2008 decreased $31.39 per barrel to ($7.97) per barrel, compared to $23.42 per barrel in the second quarter of 2007. The Gulf Coast 3/2/1 crack spread decreased by 50.6% to an average of $12.95 per barrel in the second quarter of 2008 compared to an average of $26.23 per barrel in the second quarter of 2007, contributing to the lower Big Spring refinery operating margin. The Big Spring refinery operated in a hydroskimming mode in the second quarter of 2008 due to the fire, which resulted in lower refinery light product yields. Light product yields were approximately 54% for the second quarter of 2008 and 84% for the second quarter of 2007. Operating margins for our California refineries decreased $14.46 per barrel to ($6.23) per barrel compared to $8.23 per barrel in the second quarter of 2007.

For the three months ended June 30, 2008, an involuntary gain on conversion of assets has been recorded of $96.6 million for the proceeds of $150.0 million received in excess of the book value of the assets impaired of $25.3 million and demolition and repair expenses of $28.1 million incurred through June 30, 2008 associated with the February 18, 2008 fire at the Big Spring refinery.

For the three months ended June 30, 2008, We recorded pre-tax costs of $9.4 million associated with the fire. The components of the net costs for three months ended June 30, 2008 include $8.4 million incurred from pipeline commitment deficiencies, crude sale losses and other incremental costs and $1.0 million for our insurance deductibles under the insurance policies described previously.

The gain on the disposition of assets of $42.9 million recognized in the second quarter of 2008 represented all the remaining deferred gain associated with the HEP transaction and was due to the termination of an indemnification agreement with HEP.

*Asphalt Segment.* Operating income for our asphalt segment was $2.7 million for the three months ended June 30, 2008, compared to $12.2 million for the three months ended June 30, 2007, a decrease of $9.5 million, or 77.9%. This decrease was primarily due to the increase in the cost of crude oil, which resulted in higher transfer prices for asphalt, partially offset by lower asphalt sales.

*Retail and Branded Marketing Segment.* Operating loss for our retail and branded marketing segment was ($0.2) million for the three months ended June 30, 2008, compared to $9.8 million income for the three months ended June 30, 2007, a decrease of $10.0 million. This decrease was primarily due to lower sales volumes and margins in the branded marketing business.

*Interest Expense*

Interest expense was $10.7 million for the three months ended June 30, 2008, compared to $11.7 million for the three months ended June 30, 2007, a decrease of $1.0 million. This decrease was primarily attributable to lower interest rates.

*Income Tax Expense*

Income tax expense was $11.9 million for the three months ended June 30, 2008, compared to $59.7 million for the three months ended June 30, 2007. This decrease resulted primarily from our lower operating income in the second quarter of 2008 compared to operating income in the second quarter of 2007. Our effective tax rate was 37.6% for the second quarter of 2008, compared to an effective tax rate of 37.0% for the second quarter of 2007.

*Minority Interest in Income of Subsidiaries*

Minority interest in income of subsidiaries represents the proportional share of net income related to non-voting common stock owned by minority stockholders in two of our subsidiaries, Alon Assets and Alon Operating. Minority interest in income of subsidiaries was $1.4 million for the three months ended June 30, 2008, compared to $6.0 million for the three months ended June 30, 2007, a decrease of $4.6 million or 76.7%. This decrease was primarily attributable to our lower income in the quarter as a result of the factors discussed above.

*Net Income*

Net income was $18.2 million for the three months ended June 30, 2008, compared to $95.6 million for the three months ended June 30, 2007, a decrease of $77.4 million or 81.0%. This decrease was attributable to the factors discussed above.

***Six Months Ended June 30, 2008 Compared to the Six Months Ended June 30, 2007***

*Net Sales*

*Consolidated*. Net sales for the six months ended June 30, 2008 were $2,265.4 million, compared to $2,153.1 million for the six months ended June 30, 2007, an increase of $112.3 million or 5.2%. This increase was primarily due to increased prices in all segments due to higher prices for our refined products, partially offset by lower sales volumes.

*Refining and Unbranded Marketing Segment*. Net sales for our refining and unbranded marketing segment were $1,641.6 million for the six months ended June 30, 2008, compared to $1,544.7 million for the six months ended June 30, 2007, an increase of $96.9 million or 6.3%. This increase was primarily due to significantly higher prices, partially offset by lower sales volumes. The average price of Gulf Coast unleaded gasoline for the second quarter of 2008 increased approximately $0.82 per gallon to $2.749 per gallon, compared to $1.923 per gallon in the second quarter of 2007, an increase of 42.9%, and the average Gulf Coast low-sulfur diesel price increased by approximately $1.29 per gallon to $3.229 per gallon in the second quarter of 2008 as compared to $1.937 per gallon in the second quarter of 2007, an increase of 66.7%. Our average refinery throughput in Big Spring decreased by 38,246 bpd to 30,830 bpd in the second quarter of 2008, compared to 69,076 bpd during the second quarter of 2007 due to the fire on February 18, 2008. While our throughput decreased, we were able to meet supply commitments to our customers through third party purchases. Our average refinery throughput at the California refineries decreased by 23,620 bpd to 37,632 bpd in the second quarter of 2008 compared to 61,252 bpd in the second quarter of 2007 due to reduced production in response to lower refining margins.

*Asphalt Segment*. Net sales for our asphalt segment were $281.2 million for the six months ended June 30, 2008, compared to $295.4 million for the six months ended June 30, 2007, a decrease of $14.2 million or 4.8%. This decrease was primarily due to reduced refinery throughput in both the California refineries and the Big Spring refinery.

*Retail and Branded Marketing Segment*. Net sales for our retail and branded marketing segment were $686.5 million for the six months ended June 30, 2008 compared to $600.9 million for the six months ended June 30, 2007, an increase of $85.6 million or 14.2%. This increase was primarily attributable to higher prices in gasoline and diesel fuel and the acquisition of 102 Skinny's convenience stores on June 29, 2007, and was partially offset by lower sales volumes.

*Cost of Sales*

*Consolidated*. Cost of sales was $2,221.4 million for the six months ended June 30, 2008, compared to $1,740.8 million for the six months ended June 30, 2007, an increase of $480.6 million or 27.6%. This increase was primarily due to increased costs in all segments due to higher crude oil prices and was partially offset by lower throughput.

*Refining and Unbranded Marketing Segment.* Cost of sales for our refining and marketing segment was $1,673.6 million for the six months ended June 30, 2008, compared to $1,224.9 million for the six months ended June 30, 2007, an increase of $448.7 million or 36.6%, which was primarily related to higher crude oil prices and partially offset by lower throughput. The average price per barrel of WTS crude oil for the six months ended June 30, 2008 increased $49.19 per barrel to $106.35 per barrel, compared to $57.16 per barrel for the six months ended June 30, 2007, an increase of 86.1%.

*Asphalt Segment.* Cost of sales for our asphalt segment was $255.6 million for the six months ended June 30, 2008, compared to $251.3 million for the six months ended June 30, 2007, an increase of $4.3 million or 1.7%. This increase was primarily due to the increased cost of crude oil, resulting in higher transfer prices for asphalt, partially offset by lower asphalt sales volumes.

*Retail Branded Marketing Segment.* Cost of sales for our retail and branded marketing segment was $636.0 million for the six months ended June 30, 2008, compared to $552.6 million for the six months ended June 30, 2007, an increase of $83.4 million or 15.1%. This increase was primarily due to increased motor fuel prices and to the acquisition of 102 Skinny's convenience stores on June 29, 2007.

*Direct Operating Expenses*

*Consolidated*. Direct operating expenses were $82.8 million for the six months ended June 30, 2008, compared to $104.0 million for the six months ended June 30, 2007, a decrease of $21.2 million or 20.4%.

*Refining and Unbranded Marketing Segment.* Direct operating expenses for our refining and unbranded marketing segment for the six months ended June 30, 2008 were $61.1 million, compared to $81.2 million for the six months ended June 30, 2007, a decrease of $20.1 million or 24.8%. This decrease was primarily due to reduced throughput in both the California refineries and the Big Spring refinery.

*Asphalt Segment.* Direct operating expenses for our asphalt segment for the six months ended June 30, 2008 were $21.7 million, compared to $22.8 million for the six months ended June 30, 2007, a decrease of $1.1 million or 4.8%. This decrease was primarily due to reduced throughput in both the California refineries and the Big Spring refinery.

*Selling, General and Administrative Expenses*

*Consolidated*. SG&A expenses for the six months ended June 30, 2008 were $56.7 million, compared to $50.1 million for the six months ended June 30, 2007, an increase of $6.6 million or 13.2%. This decrease was primarily due to reduced throughput in both the California refineries and the Big Spring refinery.

*Refining and Unbranded Marketing Segment*. SG&A expenses for our refining and unbranded marketing segment for the six months ended June 30, 2008 were $8.1 million, compared to $13.1 million for the six months ended June 30, 2007, a decrease of $5.0 million or 38.2%. This decrease was primarily due to reduced throughput in both the California refineries and the Big Spring refinery.

*Asphalt Segment*. SG&A expenses for our asphalt segment for the six months ended June 30, 2008 were $2.1 million, compared to $1.8 million for the six months ended June 30, 2007, an increase of $0.3 million or 16.7%.

*Retail and Branded Marketing Segment*. SG&A expenses for our retail segment for the six months ended June 30, 2008 were $46.2 million, compared to $35.0 million for the six months ended June 30, 2007, an increase of $11.2 million or 32.0%. This increase was primarily attributable to the acquisition of 102 Skinny's convenience stores on June 29, 2007.

*Depreciation and Amortization*

Depreciation and amortization for the six months ended June 30, 2008 was $27.3 million, compared to $25.6 million for the six months ended June 30, 2007. This $1.7 million or 6.6% increase was primarily attributable to increased capital activity over the past year.

*Operating Income (Loss)*

*Consolidated*. Operating loss for the six months ended June 30, 2008 was ($6.7) million, compared to $236.0 million operating income for the six months ended June 30, 2007, a decrease of $242.7 million or 102.8%. This decrease is primarily a result of reduced refining margin at both the California refineries and the Big Spring refinery.

*Refining and Unbranded Marketing Segment*. Operating income (loss) for the six months ended June 30, 2008 decreased by $211.9 million to ($4.1) million loss compared to $207.8 million income for the six months ended June 30, 2007. Our Big Spring refinery operating margin for the six months ended June 30, 2008 decreased $20.06 per barrel to ($1.08) per barrel, compared to $18.98 per barrel in the six months ended June 30, 2007. The Gulf Coast 3/2/1 crack spread decreased by 42.7% to an average of $11.19 per barrel in the second quarter of 2008 compared to an average of $19.53 per barrel in the first six months of 2007, contributing to the lower Big Spring refinery operating margin. The Big Spring refinery operated in a hydroskimming mode in the second quarter of 2008 due to the fire, which resulted in lower refinery light product yields. Light product yields were approximately 66% and 84% for the six months ended June 30, 2008 and 2007, respectively. Operating margins for our California refineries decreased $11.52 per barrel to ($4.03) per barrel compared to $7.49 per barrel in the first six months of 2007.

For the six months ended June 30, 2008, an involuntary gain on conversion of assets has been recorded of $96.6 million for the proceeds of $150.0 million received in excess of the book value of the assets impaired of $25.3 million and demolition and repair expenses of $28.1 million incurred through June 30, 2008 associated with the February 18, 2008 fire at the Big Spring refinery.

For the six months ended June 30, 2008, we recorded pre-tax costs of $25.9 million associated with the fire. The components of the net costs for the six months ended June 30, 2008 include: $18.0 millin incurred from pipeline commitment deficiencies, crude sale losses and other incremental costs, $7.0 million for our insurance deductibles under the insurance policies described previously and $0.8 million of depreciation for the temporarily idled facilities.

A gain on the disposition of assets of $42.9 million was recognized in the six months ended June 30, 2008 representing all the remaining deferred gain associated with the HEP transaction and was due to the termination of an indemnification agreement with HEP.

*Asphalt Segment.* Operating income for our asphalt segment was $0.7 million for the six months ended June 30, 2008, compared to $18.5 million income for the six months ended June 30, 2007, a decrease of $17.8 million, or 96.2%. This decrease was primarily due to the increase in the cost of crude oil, resulting in higher transfer prices for asphalt, as partially offset by lower asphalt sales volume.

*Retail and Branded Marketing Segment.* Operating loss for our retail and branded marketing segment was ($2.6) million for the six months ended June 30, 2008, compared to $10.5 million operating income for the six months ended June 30, 2007, a decrease of $13.1 million. This decrease was primarily due to lower sales volumes and margins in the branded marketing business.

*Interest Expense*

Interest expense was $21.4 million for the six months ended June 30, 2008, compared to $23.1 million for the six months ended June 30, 2007, a decrease of $1.7 million. This decrease was primarily attributable to lower interest rates.

*Income Tax Expense (Benefit)*

Income tax benefit was ($9.2) million for the six months ended June 30, 2008, compared to $81.6 million expense for the six months ended June 30, 2007. This decrease resulted from our net loss in the first six months of 2008 compared to net income in the first six months of 2007. Our effective tax rate was 36.4% for the first six months of 2008, compared to an effective tax rate of 37.0% for the first six months of 2007.

*Minority Interest in Income (Loss) of Subsidiaries*

Minority interest in income (loss) of subsidiaries represents the proportional share of net income (loss) related to non-voting common stock owned by minority stockholders in two of our subsidiaries, Alon Assets and Alon Operating. Minority interest in income (loss) of subsidiaries was a negative ($0.8) million for the six months ended June 30, 2008, compared to $7.9 million for the six months ended June 30, 2007, a decrease of $8.7 million or 110.1%. This decrease was primarily attributable to our net loss in the first six months of 2008 as a result of the factors discussed above.

*Net Income (Loss)*

Net loss was ($15.4) million for the six months ended June 30, 2008, compared to $131.2 million net income for the six months ended June 30, 2007, a decrease of $146.6 million or 111.7%. This decrease was attributable to the factors discussed above.

**Liquidity and Capital Resources**

Our primary sources of liquidity are cash on hand, cash generated from our operating activities and borrowings under our revolving credit facilities. As a result of the fire at our Big Spring refinery on February 18, 2008, these sources have been, and we expect them to continue to be, supplemented by insurance recoveries. The applicable insurance policies provide us with a combined single limit of $385.0 million for property damage, with a $2.0 million deductible, and business interruption coverage with a 45 day waiting period. The total amount of our claims may exceed the $385.0 million combined single limit. We also have third party liability insurance with a limit of $150.0 million and a $5.0 million deductible. We believe that the aforementioned sources of funds and other capital resources will be sufficient to satisfy the cash requirements we anticipate for the repair of the Big Spring refinery as well as to satisfy the anticipated cash requirements associated with our business during the next 12 months.

Our ability to generate sufficient cash from our operating activities depends on our future performance, which is subject to general economic, political, financial, competitive and other factors beyond our control. In addition, our future capital expenditures and other cash requirements could be higher than we currently expect as a result of various factors, including any expansion of our business and a final determination of the cost and timing of repairs required as a result of, and insurance recoveries resulting from, the fire at the Big Spring refinery.

Depending upon conditions in the capital markets and other factors, we will from time to time consider the issuance of debt or equity securities, or other possible capital markets transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes. Pursuant to our growth strategy, we will also consider from time to time acquisitions of, and investments in, assets or businesses that complement our existing assets and businesses. Acquisition transactions, if any, are expected to be financed through cash on hand and from operations, bank borrowings, the issuance of debt or equity securities or a combination of two or more of those sources.

*Cash Flows*

The following table sets forth our consolidated cash flows for the three and six months ended June 30, 2008 and 2007:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (dollars in thousands) | | | |
| Cash provided by (used in): | | | | |
| Operating activities | $ 7,548 | $ 120,040 | $ (42,076) | $ 158,908 |
| Investing activities | (67,871) | (91,113) | (51,003) | (99,989) |
| Financing activities | 43,084 | 42,245 | 38,360 | 36,583 |
| Net increase (decrease) in cash and cash equivalents | $ (17,239) | $ 71,172 | $ (54,719) | $ 95,502 |

*Cash Flows Provided by (Used In) Operating Activities*

Net cash provided by operating activities during the three months ended June 30, 2008 was $7.5 million, compared to $120.0 million during the three months ended June 30, 2007. The net change in cash provided by operating activities was primarily attributable to lower net income during the three months ended June 30, 2008.

Net cash used in operating activities during the six months ended June 30, 2008 was $42.1 million, compared to cash provided of $158.9 million during the six months ended June 30, 2007. The net change in cash used in operating activities was primarily attributable to lower net income during the six months ended June 30, 2008, partially offset by sources of working capital, primarily in areas of accounts receivable and accounts payable.

*Cash Flows Used In Investing Activities*

Net cash used in investing activities during the three months ended June 30, 2008 was $67.9 million, compared to $91.1 million used during the three months ended June 30, 2007. The net change in cash used in investing activities was primarily attributable to $160.3 million in capital expenditures to rebuild the Big Spring refinery, net of $121.9 million of related insurance recoveries in 2008, compared to $77.2 million for the acquisition of Skinny’s, Inc. in 2007.

Net cash used in investing activities was $51.0 million during the six months ended June 30, 2008, compared to cash used in investing activities of $100.0 million during the six months ended June 30, 2007. The net change in cash used in investing activities was primarily attributable to $160.3 million in capital expenditures to rebuild the Big Spring refinery, net of $121.9 million of related insurance recoveries in 2008, compared to $77.2 million for the acquisition of Skinny’s, Inc. in 2007.

*Cash Flows Provided By Financing Activities*

Net cash provided by financing activities was $43.1 million during the three months ended June 30, 2008, compared to cash provided of $42.2 million during the three months ended June 30, 2007. The net change in cash provided by financing activities in the second quarter of 2008 was primarily attributable to $51.0 million of borrowings under the revolving credit facilities during the three months ended June 30, 2008 compared to an increase in long term debt of $46.2 million to partially fund the acquisition of Skinny’s, Inc. in 2007.

Net cash provided by financing activities was $38.4 million during the six months ended June 30, 2008, compared to cash provided of $36.6 million during the six months ended June 30, 2007. The net change in cash provided by financing activities in the first six months of 2008 was primarily attributable to $51.0 million of borrowings under the revolving credit facilities during the six months ended June 30, 2008 offset by repayments on other debt of $8.7 million and dividends paid of $4.0 million compared to an increase in long term debt of $46.2 million to partially fund the acquisition of Skinny’s, Inc. in 2007.

*Cash Position and Indebtedness*

We consider all highly liquid instruments with a maturity of six months or less at the time of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates market value, and are invested in conservative, highly-rated instruments issued by financial institutions or government entities with strong credit standings. As of June 30, 2008, our total cash and cash equivalents were $13.9 million and we had total debt of $579.0 million.

*Summary of Indebtedness*. The following table sets forth summary information related to our term loan credit facility, revolving credit facilities and retail credit facilities as of June 30, 2008:

| | As of June 30, 2008 | | |
|---|---|---|---|
| | Amount Outstanding | Total Facility | Total Availability (1) |
| | | (dollars in thousands) | |
| Debt, including current portion: | | | |
| Term loan credit facility | $ 437,810 | $ 437,810 | $ — |
| Revolving credit facilities | 51,000 | 540,000 | 214,082 |
| Retail credit facilities | 90,152 | 90,152 | — |
| Totals | $ 578,962 | $ 1,067,962 | $ 214,082 |

(1) Total availability was calculated as the lesser of (a) the total size of the facilities less outstanding borrowings and letters of credit as of June 30, 2008, which was $214.1 million or (b) total borrowing base less outstanding borrowings and letters of credit as of June 30, 2008, which was $457.6 million.

*Term Loan Credit Facility*

On June 22, 2006, we entered into a Credit Agreement with Credit Suisse (the "Credit Suisse Credit Facility") with an aggregate available commitment of $450.0 million. Upon consummation of the acquisition of Paramount Petroleum Corporation on August 4, 2006, we borrowed $400.0 million. On September 28, 2006, we borrowed an additional $50.0 million to finance the acquisition of Edgington Oil Company. The loans under the Credit Suisse Credit Facility are term loans which mature on August 2, 2013. Principal payments of $4.5 million per annum borrowed are paid in quarterly installments. At June 30, 2008 and December 31, 2007, the outstanding balance was $437.8 million and $443.3 million, respectively.

Interest on borrowings under the Credit Suisse Credit Facility is based upon a margin over the Eurodollar rate between 1.75% and 2.50% per annum, depending upon the ratings of the loan by Standard & Poor's Rating Service and Moody's Investors Service, Inc. The Credit Suisse Credit Facility is jointly and severally guaranteed by all of our subsidiaries except for our retail subsidiaries. The Credit Suisse Credit Facility is secured by a second lien on our cash, accounts receivable and inventory and a first lien on most of our remaining assets, excluding the assets of our retail subsidiaries.

We may prepay at any time a portion or all of the outstanding loan balance under the Credit Suisse Credit Facility with no prepayment premium.

The Credit Suisse Credit Facility contains restrictive covenants, such as restrictions on liens, mergers, consolidations, sales of assets, additional indebtedness, different businesses, certain lease obligations, and certain restricted payments. This facility does not contain any requirement to maintain financial covenants.

*Revolving Credit Facilities*

*Israel Discount Bank Credit Facility*. We entered into an amended and restated revolving credit facility with Israel Discount Bank (the "IDB Credit Facility") on February 15, 2006, which was further amended and restated thereafter. The initial commitment of the lenders under the IDB Credit Facility is $160.0 million with options to increase the commitment to $240.0 million if crude oil prices increase above certain levels or we increase our throughput capacity of facilities owned by subsidiaries that are parties to this agreement. Amounts borrowed under the IDB Credit Facility accrue interest at the Eurodollar rate plus 1.5% per annum.

The IDB Credit Facility was amended to extend the term of the revolving credit period through January 2010, to reduce existing borrowing costs and letter of credit fees, and to alter certain covenants (absent a default or event of default), including limitations on incurrence of debt, distribution of dividends and investment activities. The IDB Credit Facility is secured by (i) a first lien on our cash, accounts receivables, inventories and related assets, excluding those of Alon Paramount Holdings, Inc. ("Alon Holdings") its subsidiaries other than Alon Pipeline Logistics, LLC ("Alon Logistics"), and those of our retail subsidiaries and (ii) a second lien on its fixed assets excluding assets held by Paramount Petroleum Corporation and our retail subsidiaries.

There was $27.0 million outstanding under the IDB Credit Facility at June 30, 2008 and zero outstanding at December 31, 2007. As of June 30, 2008 and December 31, 2007, we had $121.9 million and $113.5 million, respectively, of outstanding letters of credit under the IDB Credit Facility.

*Bank of America Credit Facility.* In conjunction with our acquisition of Paramount Petroleum Corporation, Alon Holdings, a subsidiary, assumed a Revolving Credit Agreement (the "Bank of America Initial Credit Facility") between Paramount Petroleum Corporation and Bank of America N.A., as Agent, and a group of financial institutions secured by the assets of Paramount Petroleum Corporation. Borrowings under the Bank of America Initial Credit Facility were limited to $215.0 million, consisting of revolving loans and letters of credit. There were no borrowings outstanding under the Bank of America Initial Credit Facility at December 31, 2007 and outstanding letters of credit were $90.6 million.

On March 1, 2007, Paramount Petroleum Corporation entered into an amended and restated credit agreement (the "Bank of America Credit Facility") with Bank of America, N.A. as Agent, and the group of lenders party thereto. The Bank of America Credit Facility is primarily secured by the assets of Alon Holdings (excluding Alon Logistics). Borrowings under the Bank of America Credit Facility are limited to $300.0 million, consisting of revolving loans and letters of credit. Amounts borrowed under the Bank of America Credit Facility accrue interest at LIBOR plus a margin, between 1.25% and 2.00%, based on excess availability. Based on the excess availability as of June 30, 2008, such interest rate would be 1.50% over the LIBOR rate. The Bank of America Credit Facility expires on February 28, 2012. The Bank of America Credit Facility contains restrictive covenants, such as limitations on liens, additional indebtedness and certain restrictive payments. There was $24.0 million outstanding under the Bank of America Credit Facility at June 30, 2008 and outstanding letters of credit were $153.0 million.

*Retail Credit Facilities*

On June 29, 2007, Southwest Convenience Stores, LLC ("SCS"), our subsidiary, entered into an amended and restated credit agreement (the "Amended Wachovia Credit Facility"), by and among SCS, as borrower, the lenders party hereto and Wachovia Bank, N. A. ("Wachovia"), as Administrative Agent. The Amended Wachovia Credit Facility amends and restates the Wachovia Credit Facility, dated June 6, 2006, among SCS, the lenders party thereto and Wachovia (the "Original Credit Facility").

The assets of Skinny's, LLC and SCS and each of their subsidiaries, including cash, accounts receivable and inventory, are pledged as security for the obligations under the Amended Wachovia Credit Facility. Skinny's, LLC was formed in connection with the acquisition of Skinny's, Inc. The commitment of the lenders under the Amended Wachovia Credit Facility is limited to $95.0 million.

Prior to the amendment, $48.8 million was outstanding under the Original Credit Facility, consisting of $28.8 million term loan and a $20.0 million revolving credit loan. In connection with the Skinny's acquisition, SCS converted the existing revolving credit loan of $20.0 million to a term loan and drew down an additional $46.2

million under the Amended Wachovia Credit Facility. This amount, and all previously outstanding amounts, was combined into a $95.0 million term loan. At June 30, 2008, $89.2 million was outstanding under the Amended Wachovia Credit Facility and there were no further amounts available for borrowing.

Borrowings under the Amended Wachovia Credit Facility bear interest at a Eurodollar rate plus 1.5% per annum. Principal payments on term loan borrowings under the Amended Wachovia Credit Facility began August 1, 2007 with monthly installments based on a 15-year amortization term.

Obligations under the Amended Wachovia Credit Facility are jointly and severally guaranteed by us, our subsidiaries Alon USA Interests, LLC, Skinny's, LLC and its subsidiaries and all of the subsidiaries of SCS. The obligations under the Amended Wachovia Credit Facility are secured by a pledge of substantially all of the assets of SCS and Skinny's, LLC and each of their subsidiaries, including cash, accounts receivable and inventory.

The Amended Wachovia Credit Facility contains customary restrictive covenants, such as restrictions on liens, mergers, consolidations, sales of assets, additional indebtedness, investments, certain lease obligations and certain restricted payments.

In 2003, we obtained $1.5 million in mortgage loans to finance the acquisition of new retail locations. The interest rates on these loans ranged between 5.5% and 9.7%, with 5 to 15 year payment terms. At June 30, 2008 and December 31, 2007, the outstanding balances were $1.0 million and $1.0 million, respectively.

*Capital Spending*

Each year our board of directors approves a capital projects budget, which includes regulatory and planned turnaround projects that our management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, other projects or the expansion of existing projects may be approved. Our total capital expenditure and turnaround/chemical catalyst budget for 2008 is $93.5 million, of which $36.0 million is related to regulatory and compliance projects, $13.5 million is related to turnaround and chemical catalyst, and $44.0 million is related to various improvement and sustaining projects. Approximately $181.9 million has been spent as of June 30, 2008 with $160.3 million to rebuild the Big Spring refinery.

*Clean Air Capital Expenditures*. We expect to spend approximately $19.3 million in the aggregate in 2008 and 2009 to comply with the Federal Clean Air Act regulations requiring a reduction in sulfur content in gasoline.

*Turnaround and Chemical Catalyst Costs*. We expect to spend approximately $13.5 million during 2008 relating to turnaround and chemical catalyst. Approximately $2.1 million has been spent as of June 30, 2008 compared to $5.1 million for the same period in 2007.

**Contractual Obligations and Commercial Commitments**

There have been no material changes outside the ordinary course of business from our contractual obligations and commercial commitments detailed in our Annual Report on Form 10-K for the year ended December 31, 2007.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Critical Accounting Policies**

We prepare our consolidated financial statements in conformity with GAAP. In order to apply these principles, we must make judgments, assumptions and estimates based on the best available information at the time. Actual results may differ based on the accuracy of the information utilized and subsequent events, some of which we may have little or no control over.

Our critical accounting policies are described under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2007. Certain critical accounting policies that materially affect the amounts recorded in our consolidated financial statements are the use of LIFO method for valuing certain inventories and the deferral and subsequent amortization of costs associated with major turnarounds and chemical catalysts replacements. No significant changes to these accounting policies have occurred subsequent to December 31, 2007.

**New Accounting Standards and Disclosures**

New accounting standards are disclosed in Note 1(c) Basis of Presentation and Certain Significant Accounting Policies—New Accounting Standards included in the consolidated financial statements included in Item 1 of this report.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in commodity prices, purchased fuel prices and interest rates are our primary sources of market risk. Our risk management committee oversees all activities associated with the identification, assessment and management of our market risk exposure.

*Commodity Price Risk*

We are exposed to market risks related to the volatility of crude oil and refined product prices, as well as volatility in the price of natural gas used in our refinery operations. Our financial results can be affected significantly by fluctuations in these prices, which depend on many factors, including demand for crude oil, gasoline and other refined products, changes in the economy, worldwide production levels, worldwide inventory levels and governmental regulatory initiatives. Our risk management strategy identifies circumstances in which we may utilize the commodity futures market to manage risk associated with these price fluctuations.

In order to manage the uncertainty relating to inventory price volatility, we have consistently applied a policy of maintaining inventories at or below a targeted operating level. In the past, circumstances have occurred, such as timing of crude oil cargo deliveries, turnaround schedules or shifts in market demand, that have resulted in variances between our actual inventory level and our desired target level. Upon the review and approval of our risk management committee, we may utilize the commodity futures market to manage these anticipated inventory variances.

We maintain inventories of crude oil, asphalt, feedstocks and refined products, the values of which are subject to wide fluctuations in market prices driven by world economic conditions, regional and global inventory levels and seasonal conditions. As of June 30, 2008, we held approximately 4,824 million barrels of crude, product, and asphalt inventories valued under the LIFO valuation method with an average cost of $51.93 per barrel. Market value exceeded carrying value of LIFO costs by $304.4 million. We refer to this excess as our LIFO reserve. If the market value of these inventories had been $1.00 per barrel lower, our LIFO reserve would have been reduced by $4.8 million.

In accordance with SFAS No. 133, all commodity futures contracts are recorded at fair value and any changes in fair value between periods is recorded in the profit and loss section or accumulated other comprehensive income of our consolidated financial statements. "Forwards" represent physical trades for which pricing and quantities have been set, but the physical product delivery has not occurred by the end of the reporting period. "Futures" represent trades which have been executed on the New York Mercantile Exchange which have not been closed or settled at the end of the reporting period. A "long" represents an obligation to purchase product and a "short" represents an obligation to sell product.

The following table provides information about our derivative commodity instruments as of June 30, 2008:

| Description of Activity | Contract Volume | Wtd Avg Purchase Price/BBL | Wtd Avg Sales Price/BBL | Contract Value | Market Value | Gain (Loss) |
|---|---|---|---|---|---|---|
| | | | | | (in thousands) | |
| Forwards-long (Gasoline) | 25,000 | $ 141.02 | $ — | $ 3,525 | $ 3,539 | $ 13 |
| Forwards-short (Gasoline) | (25,000) | — | 138.60 | (3,465) | (3,490) | (25) |
| Forwards-short (Diesel) | (10,000) | — | 160.13 | (1,601) | (1,647) | (46) |
| Futures-long (Crude) | 179,000 | 136.66 | — | 24,463 | 25,060 | 597 |
| Futures-short (Crude) | (464,000) | — | 132.95 | (61,689) | (64,960) | (3,271) |
| Futures-long (Heating Oil) | 16,000 | 161.28 | — | 2,580 | 2,628 | 47 |
| Futures-short (Heating Oil) | (16,000) | — | 162.84 | (2,606) | (2,628) | (22) |

| Description of Activity | Contract Volume | Wtd Avg Contract Spread | Wtd Avg Market Spread | Contract Value | Market Value | Gain (Loss) |
|---|---|---|---|---|---|---|
| Futures-swaps (Crack Spread) | 14,849,750 | $ 22.27 | $ 25.99 | $317,907 | $370,873 | $(52,966) |

*Interest Rate Risk*

As of June 30, 2008, $578.0 million of our outstanding debt was at floating interest rates. Outstanding borrowings under the Credit Suisse Credit Facility and the Amended Wachovia Credit Facility bear interest at Eurodollar plus 2.25% and Eurodollar plus 1.5% per annum, respectively. Outstanding borrowings under the IDB credit facility bear interest at Eurodollar plus 1.50% and outstanding borrowings under the Bank of America Credit Facility bear interest at LIBOR plus 1.50%. As of June 30, 2008, we had interest rate swap agreements with a notional amount of $350.0 million and fixed interest rates ranging from 4.25% to 4.75%. An increase of 1% in the Eurodollar rate would result in an increase in our interest expense of approximately $2.3 million per year.

## ITEM 4. CONTROLS AND PROCEDURES

**(1) Evaluation of disclosure controls and procedures.**

Our management has evaluated, with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms including, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

**(2) Changes in internal control over financial reporting.**

There has been no change in our internal control over financial reporting (as described in Rule 13a-15(f) under the Exchange Act) that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

**Purchases of Equity Securities by Affiliate Purchasers**

| Period | Total Number of Shares Purchased (a) | Average Price Paid per Share (b) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| January 1, 2008 — January 31, 2008 | — | — | — | — |
| February 1, 2008 — February 29, 2008 | — | — | — | — |
| March 1, 2008 — March 31, 2008 | 933,000 | $ 13.07 | — | — |
| April 1, 2008 — April 30, 2008 | — | — | — | — |
| May 1, 2008 — May 31, 2008 | — | — | — | — |
| June 1, 2008 — June 30, 2008 | — | — | — | — |
| Total | 933,000 | $ 13.07 | | |

(a) The amount shown in this column reflects the aggregate purchases, in a series of open market transactions, by (i) Alon Israel Oil Company Ltd. ("Alon Israel") of an aggregate of 880,000 shares of Alon common stock at an average volume weighted purchase price of $13.02; and (ii) David Wiessman of an aggregate of 53,000 shares of Alon common stock at an average volume weighted purchase price of $13.77. The purchases by Alon Israel and Mr. Wiessman were effected in accordance with the volume limitations and other provisions of the safe harbor set forth in Rule 10b-18 under the Exchange Act.

(b) The amount shown in this column reflects the average volume weighted purchase price of the combined purchases by Alon Israel and Mr. Wiessman.

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**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

The Annual Meeting of our stockholders was held on May 2, 2008. Our stockholders voted on the following items at the Annual Meeting:

(a) The stockholders approved the election of ten (10) directors for a one-year term expiring at the 2009 Annual Meeting of our stockholders. The votes cast in these elections were as follows:

| Director | For | Withheld |
|---|---|---|
| Itzhak Bader | 41,518,375 | 3,002,052 |
| Boaz Biran | 41,517,976 | 3,002,452 |
| Ron Fainaro | 43,281,975 | 1,238,453 |
| Avinadav Grinshpon | 43,493,446 | 1,026,982 |
| Ron W. Haddock | 43,602,620 | 917,808 |
| Jeff. D. Morris | 41,369,553 | 3,150,875 |
| Yeshayahu Pery | 41,518,445 | 3,001,983 |
| Zalman Segal | 43,575,238 | 945,190 |
| Avraham Shochat | 43,577,038 | 943,390 |
| David Wiessman | 41,338,319 | 3,182,109 |

With respect to each director, there were no votes cast against, abstentions, or broker non-votes.

b) The stockholders ratified the employment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008. The votes for ratification were 44,372,090, the votes against ratification were 138,993 and the votes abstained were 9,346. There were no broker non-votes.

## ITEM 6. EXHIBITS

| Exhibit Number | Description of Exhibit |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Alon USA Energy, Inc. (incorporated by reference to Exhibit 3.1 to Form S-1, filed by the Company on July 7, 2005, SEC File No. 333-124797). |
| 3.2 | Amended and Restated Bylaws of Alon USA Energy, Inc. (incorporated by reference to Exhibit 3.2 to Form S-1, filed by the Company on July 14, 2005, SEC File No. 333-124797). |
| 4.1 | Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Form S-1, filed by the Company on June 17, 2005, SEC File No. 333-124797). |
| 10.1 | Stock Purchase Agreement, dated May 7, 2008, between Valero Refining and Marketing Company and Alon Refining Krotz Springs, Inc. (incorporated by reference to Exhibit 10.1 to Form 8-K, filed by the Company on May 13, 2008, SEC File No. 001-32567). |
| 10.2 | First Amendment to Stock Purchase Agreement, dated as of July 3, 2008, by and among Valero Refining and Marketing Company, Alon Refining Krotz Springs, Inc. and Valero Refining Company-Louisiana (incorporated by reference to Exhibit 10.1 to Form 8-K, filed by the Company on July 10, 2008, SEC File No. 001-32567). |
| 10.3 | Term Loan Agreement, dated as of July 3, 2008, by and among Alon Refining Louisiana, Inc., Alon Refining Krotz Springs, Inc., the lenders party thereto and Credit Suisse, as administrative agent and collateral agent (incorporated by reference to Exhibit 10.2 to Form 8-K, filed by the Company on July 10, 2008, SEC File No. 001-32567). |
| 10.4 | Loan and Security Agreement, dated as of July 3, 2008, by and among Alon Refining Louisiana, Inc., Alon Refining Krotz Springs, Inc., the lenders party thereto and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.3 to Form 8-K, filed by the Company on July 10, 2008, SEC File No. 001-32567). |
| 10.6 | Waiver, Consent, Partial Release and Fourth Amendment, dated as of July 3, 2008, by and among USA Energy, Inc., Alon USA, LP, Israel Discount Bank of New York, Bank Leumi USA and certain other guarantor companies and financial institutions from time to time named therein (incorporated by reference to Exhibit 10.4 to Form 8-K, filed by the Company on July 10, 2008, SEC File No. 001-32567). |
| 10.7 | Series A Preferred Stock Purchase Agreement, dated as of July 3, 2008, by and between Alon Refining Louisiana, Inc. and Alon Israel Oil Company, Ltd. (incorporated by reference to Exhibit 10.5 to Form 8-K, filed by the Company on July 10, 2008, SEC File No. 001-32567). |
| 10.8 | Stockholders Agreement, dated as of July 3, 2008, by and among Alon USA Energy, Inc., Alon Refining Louisiana, Inc., Alon Louisiana Holdings, Inc. and Alon Israel Oil Company, Ltd. (incorporated by reference to Exhibit 10.6 to Form 8-K, filed by the Company on July 10, 2008, SEC File No. 001-32567). |
| 10.9 | Offtake Agreement, dated as of July 3, 2008, by and between Valero Marketing and Supply Company and Alon Refining Krotz Springs, Inc. (asterisks located within the exhibit denote information which has been deleted pursuant to a request for confidential treatment filed with the Securities Exchange Commission). |
| 10.10 | Earnout Agreement, dated as of July 3, 2008, by and between Valero Refining and Marketing Company and Alon Refining Krotz Springs, Inc. (asterisks located within the exhibit denote information which has been deleted pursuant to a request for confidential treatment filed with the Securities Exchange Commission). |
| 31.1 | Certifications of Chief Executive Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certifications of Chief Financial Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002. |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Alon USA Energy, Inc.

Date: August 7, 2008

By: /s/ David Wiessman
David Wiessman
Executive Chairman

Date: August 7, 2008

By: /s/ Jeff D. Morris
Jeff D. Morris
Chief Executive Officer

Date: August 7, 2008

By: /s/ Shai Even
Shai Even
Chief Financial Officer

## EXHIBITS

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| 31.2 | Certifications of Chief Financial Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002. |

EXHIBIT 10.9

**[***] DENOTES CONFIDENTIAL MATERIALS OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT**

# Offtake Agreement

**by and between**

**Alon Refining Krotz Springs, Inc.**

**and**

**Valero Marketing and Supply Company**

**dated**

**July 3, 2008**

---

# OFFTAKE AGREEMENT

**THIS OFFTAKE AGREEMENT** (this "Agreement") is entered into on July 3, 2008 to be effective as of July 1, 2008 (the "Effective Date"), by and between **ALON REFINING KROTZ SPRINGS, INC.**, a Delaware corporation ("Seller"), and **VALERO MARKETING AND SUPPLY COMPANY**, a Delaware corporation ("VMSC", and sometimes "Buyer").

## WITNESSETH

**WHEREAS,** Seller and Valero Refining and Marketing Company, a Delaware corporation ("VRMC"), have entered into a Stock Purchase Agreement, dated as of May 7, 2008 (the "SPA"), pursuant to which VRMC will sell and transfer, and Seller will purchase and take title to and delivery of the Shares (as defined in the SPA).

WHEREAS, Seller and VMSC (collectively, the "Parties", and each individually a "Party") are desirous of entering into an agreement whereby Seller will sell and VMSC will purchase a quantity of Products (as defined below); and

WHEREAS, Seller desires to sell to VMSC and VMSC desires to purchase from Seller the Products pursuant to the terms and conditions of this Agreement;

WHEREAS, Seller and VMSC acknowledge and agree that VMSC will resell certain of the Products to VMSC customers at the Refinery Truck Rack;

NOW THEREFORE, in consideration of the premises, the terms and conditions hereinafter set forth and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

## 1 DEFINED TERMS

As used in this Agreement, the following terms shall have the following meanings: "Affiliate" has the same meaning as that term is defined in the SPA.

"*Applicable Law*" shall mean any applicable statute, law, regulation, ordinance, rule, judgment, rule of law, order, decree (including, without limitation, any consent decree), permit, approval, license, requirement, or other governmental restriction or any similar form of decision of, or any provision or condition of any permit, license or other operating authorization issued under any of the foregoing by, or any determination by any Governmental Authority having or asserting jurisdiction over the matter or matters in question, whether now or hereafter in effect and in each case as amended (including without limitation, all of the terms and provisions of the common law of such Governmental Authority), as interpreted and enforced at the time in question.

"*Argus*" means the various daily reports published by Argus Media including the U.S. Products Report.

"*BPD*" means Barrels per Day.

"*Business Day*" has the same meaning as that term is defined in the SPA.

"*CMAI*" means Chemical Market Associates, Inc.

"*Contract Year*" means a period of 365 days (or 366 days in case the period includes a February 29) beginning on the Effective Date, and ending on each subsequent anniversary thereof during the effectiveness of this Agreement.

"*cpg*" means United States cents per Gallon.

"*Day*" means each period of twenty-four consecutive hours, beginning and ending at 12:00 am (midnight), Central Time.

"*Gallon*" means one standard United States gallon at 60 degrees Fahrenheit.

"*Governmental Authority*" means any federal, state, local, foreign government, any provincial, departmental or other political subdivision thereof, or any entity, body or authority exercising executive, legislative, judicial, regulatory, administrative or other governmental functions or any court, department, commission, board, bureau, agency, instrumentality or administrative body of any of the foregoing.

*"OPIS"* means Oil Price Information Service.

"*Platt's*" means Platt's Oilgram Price Report.

"*Refinery*" means the petroleum refinery of Seller located in Krotz Springs, St. Landry Parish, Louisiana.

"*Term*" has the meaning set forth in Section 3.

Any other capitalized terms in this Agreement not otherwise defined above shall have the meaning as defined herein.

## 2 PURCHASE AND SALE

**2.1** Products. Seller will sell and deliver to VMSC, and VMSC will purchase and receive from Seller, the products (the "Products", and each individually a "Product") set forth on Schedule 2.1 and Schedule 2.2 attached hereto and incorporated by reference and such other products as may be mutually agreed from time to time by the Parties.

**2.2** Specifications. The specifications for the Products are as set forth in Schedule 2.1 and Schedule 2.2.

**2.3** Volumes. Subject to Schedule 2.1 and Schedule 2.2, the applicable volumes of the Products to be purchased and sold hereunder shall be equal to 100% of the Refinery's production of the Products.

**2.4** Liftings. Products will be delivered and lifted ratably throughout the applicable month based upon the applicable Final Offtake Nomination (as defined in Section 2.6) and Final Forecast (as defined in Section 2.7).

**2.5** Delivery Points. Product will be delivered to the requested delivery points (each individually, a "Delivery Point" and collectively, the "Delivery Points") identified on Schedule 2.1 and Schedule 2.2. In the event Seller is unable to load or deliver any Products at the specific Delivery Points designated by VMSC, Seller shall provide VMSC prompt notice thereof. Deliveries shall be as specified in Schedule 2.1 and Schedule 2.2.

**2.6** Nominations. Upon the Effective Date of this Agreement and on each anniversary thereafter, VMSC shall provide Seller with a good faith non-binding forecast of its monthly requirements (the "Initial Offtake Nomination") for each of the Products listed on Schedule 2.2 (stating volumes and gasoline grade splits) for the following Contract Year. The estimates set out in Schedule 2.6 hereto shall be VMSC's annual estimates for the first Contract Year. On or before the twentieth Day of each calendar month, VMSC shall provide Seller with monthly nominations by week for each Product for the following month stating volumes, gasoline grade splits and Delivery Points (the "Final Offtake Nomination"); provided, however that the Final Offtake Nomination for each month shall not vary by more than plus or minus twenty percent (20%) in the aggregate from the Initial Offtake Nomination for such month and the aggregate volume of each Product identified in all monthly nominations for months within any Contract Year shall not vary by more than twenty percent (20%) from the aggregate volumes thereof to be purchased and sold hereunder during the applicable Contract Year (or, with respect to any portion of a Contract Year, the ratable portion thereof for which monthly nominations shall have been made). Seller agrees to deliver the Products and VMSC agrees to lift the Products in accordance with the Final Offtake Nomination for each month in which deliveries are scheduled unless mutually agreeable changes are made.

**2.7** Scheduling. Upon the Effective Date of this Agreement and on the 15th day of each month, Seller shall provide VMSC with a good faith non-binding forecast of its monthly production (the "Forecast") for each of the Products (stating volumes and grades, as applicable) listed on Schedule 2.1, to the extent VMSC is required to purchase the same volume, for the following month on a weekly basis and for any subsequent months on a monthly basis. The estimates set out in Schedule 2.7 hereto shall be Seller's Forecast for the three month period ending on September 30, 2008. On or before the twentieth Day of each calendar month, VMSC shall provide Seller with monthly nominations by week for each Product for the following month stating volumes, gasoline grade splits, if applicable, and Delivery Points (the "Transitional Offtake Nomination"). Based upon the Transitional Offtake Nomination, the Parties will develop a delivery schedule for each of the Products (each a "Schedule"). The Schedules will be updated in good faith by the parties as appropriate.

**2.8** Planned Maintenance. In each month during the Term, Seller will provide VMSC with a twelve (12) month rolling forecast of scheduled downtime of the Refinery and Product availability to the nearest Day ("Maintenance Outage Days"). Schedule 2.8 sets forth Seller's known Maintenance Outage Days as of the Effective Date.

**2.9** Remedies. The Parties acknowledge that the remedies available to them at law or in equity for a breach of delivery or receipt may include "cover" and "resale" damages subject to and in accordance with the applicable provisions of the Uniform Commercial Code as adopted by the State of Texas.

**2.10** Retained Offtake Products. The Parties acknowledge the Retained Offtake Products, as such term is defined in the Feedstock and Product Inventory Sales Agreement attached to the SPA as Exhibit D, shall be treated by the Parties for purposes of this Agreement in accordance with Section 5 of the Feedstock and Product Inventory Sales Agreement.

**2.11** Sale of Products by VMSC. Certain Products to be purchased by VMSC hereunder are not produced at the Refinery. As such, the Parties have agreed that Seller will purchase from VMSC and VMSC will sell and deliver to Seller such Products, pursuant to the terms and conditions of the Sales Contract attached hereto as Exhibit B.

## 3 TERM

The "Term" of this Agreement shall be from the Effective Date through the earlier of the date that all of the purchase and sale obligations for all Products set forth in Schedule 2.1 and Schedule 2.2 end or the termination of this agreement pursuant to Section 6.1. For avoidance of doubt, Schedule 2.1 and Schedule 2.2 contain specific terms for the purchase and sale obligations for each Product, and the termination of such obligation as to one Product, pursuant to such terms, shall not impact the obligations as to the other Products or this Agreement.

## 4 PRICING/INVOICES/PAYMENT TERMS

**4.1** Pricing. The prices for the Products are as set forth on Schedule 2.1 and Schedule 2.2. Prices shall be rounded to six (6) decimal places. For any Product having a contract term exceeding one (1) year, the Parties shall meet anytime after the expiration of six (6) months from the Effective Date to reexamine the price for such Product. If the Parties determine that the pricing formula set forth herein results in a price which is materially different than the then prevailing "market price" for such Product at one or more applicable Delivery Points, the Parties shall mutually agree on a new price for any such Product at any such Delivery Point, as appropriate. If the Parties cannot agree on a new pricing formula or if the Parties cannot agree that the pricing formula set forth herein results in a material difference when compared to the then prevailing "market price" for such Product at one or more applicable Delivery Points, then the Parties shall hire a mutually acceptable independent third party to determine the materiality of the difference and/or a prevailing market price formula based upon the factors set forth above. The Parties shall share equally the costs of the independent third party.

**4.2** Replacement Publications. In the event that the publisher of any price set forth on the schedules hereto ceases operation and/or publication of the relevant price or materially alters the method for calculating a price, the Parties agree to meet within ten (10) days to agree to a replacement publication for use hereunder. In addition, VMSC reserves the right to change from Argus to Platt's or another pricing index prior to execution.

**4.3** Invoice Address. Until such times that the Parties use electronic data interchange ("EDI"), all invoices shall be transmitted to the following address:

**Gasoline and Finished Distillate**

Valero Marketing and Supply Company
One Valero Way
Mail Station F3R-118B
San Antonio, Texas 78249
Attention: Bulk Finished Product Accounting – Tina Richey
Telephone: (210) 345-2265
Facsimile: (210) 444-8512

**Ammonium Thiosulfate and NGLs (BBs, PC4, Butane, PPs)**

Valero Marketing and Supply Company
One Valero Way
Mail Station F3R-118C
San Antonio, Texas 78249
Attention: Specialty Product & Asphalt Accounting – Carrie Tate
Telephone: (210) 345-2051
Facsimile: (210) 444-8525

**Intermediates (LCO, HSD Blendstock)**

Valero Marketing and Supply Company
One Valero Way
Mail Station F3T-152C
San Antonio, Texas 78249
Attention: Domestic Crude & Other Feedstock Accounting – Felix Sekula
Telephone: (210) 345-4399
Facsimile: (210) 444-8513

**Heavy Products**

Valero Marketing and Supply Company
One Valero Way
Mail Station F3T-159A
San Antonio, Texas 78249
Attention: Foreign Crude & Secondary Accounting – Mike Zerda
Telephone: (210) 345-5818
Facsimile: (210) 370-4719

**4.4** Invoices. Seller shall submit an invoice, together with such information as the Parties mutually agree is necessary to substantiate the invoice (collectively, the "Invoice"), to

VMSC for all Products delivered to VMSC within two (2) Business Days after delivery or lifting and VMSC agrees to pay Seller within two (2) Business Days of receipt of any such Invoice.

Each Invoice shall show the quantity, Product type and grade of Products nominated by VMSC and delivered by the Seller at each relevant Delivery Point together with the prices applicable for these Products and quantities. Seller shall deliver each Invoice to VMSC via facsimile or electronic transmission, unless otherwise agreed by the Parties. The Parties agree to work together in good faith to arrange for each Invoice to be sent via EDI as soon as reasonably practicable after entering into this Agreement.

## 5 MEASUREMENTS

Quantity of Product delivered shall be determined pursuant to the methods set forth in the General Terms and Conditions on a temperature adjusted (net) Gallon based on 60° Fahrenheit.

## 6 TERMINATION

**6.1** Termination. This Agreement may be terminated:

**A.** By either Party if the other Party declares an event of force majeure (as set forth in paragraph 9 of the General Terms and Conditions, attached hereto as Exhibit A) that occurs and continues for a period in excess of sixty (60) consecutive Days; or

**B.** By either Party if the other Party materially defaults in the observance or in the due and timely performance of any of the material covenants of such Party contained herein, and such default (other than payment default) shall continue un-remedied fifteen (15) Business Days after the defaulting Party's receipt of written notice of default (or, in the event such default cannot be remedied within fifteen (15) Business Days, the defaulting Party has not commenced remedying such default within fifteen (15) Business Days).

**C.** By either Party in the event the other Party, (a) makes an assignment or any general arrangement for the benefit of creditors, (b) files a petition or otherwise commences, authorizes, or acquiesces in the commencing of a proceeding or cause under any bankruptcy or similar law for the protection of creditors or have such petition filed or proceeding commenced against it, (c) otherwise becomes bankrupt or insolvent (however evidenced), or (d) has a receiver, provisional liquidator, conservator, custodian trustee or other similar official appointed with respect to it or substantially all of its assets.

**D.** By either Party in accordance with paragraph 6 of the General Terms and Conditions attached hereto as Exhibit A.

Written notice of termination shall be given by the terminating Party to the other Party.

## 7 RAILCARS

Subject to and in accordance with Section 7.13 of the SPA (as applicable), during the Transition Term of this Agreement, VMSC will maintain the railcars it leases in connection with the transportation of Propane/Propylene from the Refinery (the “Propylene Railcars”) in accordance with the terms of such leases. At the end of the Transition Term of the Agreement VMSC will assign (subject to any applicable restrictions or limitation applicable to such assignment and provided that VMSC shall exercise its commercially reasonable efforts to overcome any such restrictions or limitations) and Seller will accept the assignment of the Propylene Railcars to Seller. If the lease of any Propylene Railcar expires during the Transition Term of the Agreement, VMSC will use commercially reasonable efforts to renew the lease of such Propylene Railcar consistent with VMSC’s past practices; provided, however, that VMSC will seek Seller’s input regarding the terms of any such renewal and will try to incorporate the same into the renewal to the extent commercially reasonable; provided further, that VMSC shall have the right to renew the lease on any such Propylene Railcars on such terms that it deems commercially reasonable; and provided, further, that VMSC shall have no liability whatsoever to Seller or any of its Affiliates if VMSC is unable to renew the lease of a Propylene Railcar or if it is unable to find and lease a replacement railcar using commercially reasonable efforts.

## 8 MISCELLANEOUS

**8.1** Exhibits. The exhibits attached hereto, including without limitation the General Terms and Conditions as Exhibit A and incorporated herein by this reference, are made a part of this Agreement. In the event of conflict between the provisions of the main body of this Agreement and any of the exhibits hereto, the provisions of the main body of this Agreement shall prevail.

**8.2** Notices. Any and all notices herein prescribed shall be in writing and transmitted by personal delivery, by U.S. Postal Service as overnight or certified mail, by a nationally recognized delivery service for same Day or overnight delivery or by facsimile to the respective parties as follow:

Valero Marketing and Supply Company<br>
Attn: Vice President — Product Supply<br>
One Valero Way<br>
San Antonio, TX 78249<br>
Telephone No.: (210) 345-3599<br>
Fax No.: (210) 345-2413

Alon Refining Krotz Springs, Inc.<br>
c/o Alon USA Energy, Inc.<br>
7616 LBJ Freeway, Suite 300<br>
Dallas, Texas 75251<br>
Attention: General Counsel<br>
Telephone: (972) 367-3702<br>
Facsimile: (972) 367-3724

Receipt of all notices shall be determined by date/time stamp on received, confirmed fax or receipt date on any other form of delivery.

**8.3** Relationship of the Parties. It is not the purpose or intention of this Agreement to create (and it should not be construed as creating) a joint venture, partnership or any type of association, and the Parties are not authorized to act as an agent or principal for each other with respect to any matter related hereto.

**8.4** Amendment. This Agreement may be amended only by an instrument in writing executed by the Parties hereto.

**8.5** Successors Bound; No Third-Party Beneficiaries. Subject to the provisions of paragraph 15 of Exhibit A hereof, this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other person or entity any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

**8.6** Entire Agreement. This Agreement, the exhibits and the documents specifically referred to herein and any defined term of the SPA incorporated herein by reference constitute the entire agreement, understanding, representations and warranties of the Parties hereto with respect to the subject matter hereof.

**8.7** Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

**IN WITNESS WHEREOF**, the Parties have duly executed this Agreement effective as of the date first specified above.

**VALERO MARKETING AND SUPPLY COMPANY**

By: /s/ S. Eugene Edwards
Name: S. Eugene Edwards
Title: Executive Vice President

**ALON REFINING KROTZ SPRINGS, INC.**

By: /s/ Harlin R. Dean
Name: Harlin R. Dean
Title: Vice President

[Signature Page to Offtake Agreement]

**Schedule 2.1**

**Products:** As set forth in the table below. In addition, Premium Conventional and ULSD are not produced at the Refinery and are included below to satisfy VMSC rack demand requirements, such Products to be supplied to Seller by VMSC pursuant to the Sales Contract attached hereto as Exhibit B.

| Product | Grades | Specifications |
|---|---|---|
| RUL | RUL 87(R+M)/2 or RUL 84(R+M)/2 | Colonial Pipeline |
| PUL | | Colonial Pipeline |
| RUL Ultra Low Sulfur | | Colonial Pipeline |
| ULSD | | Colonial Pipeline |
| Jet Fuel | 54 Grade | Colonial Pipeline |
| Light Cycle Oil (LCO) | | Gravity – greater than 16<br>Flash – greater than 140°F<br>Distillation – EP less than 700°F<br>Sulfur – 1.5% max<br>Nitrogen Blanketed |
| High Sulfur No. 2 Oil Blendstock (SRD) | 88 grade | Colonial Pipeline<br>Bromine No. = 3 max |
| Butane/Butylene | | Typical Refinery production |
| Poly C4 | | Typical Refinery production |
| Normal Butane | | Typical Refinery production |
| LPG Mix | | Typical Refinery production |
| Propane/Propylene | | Typical Refinery production |
| High Sulfur Slurry | | Typical Refinery production |
| Low Sulfur Atmospheric Tower Bottoms | | Typical Refinery production |
| Ammonium Thiosulfate | | Sulfur, Wt.% — 25.5 Min 26.2 Max<br>Nitrogen, Wt.% — 11.5 Min 12.2 Max<br>pH — 6.8 Min 7.2 Max |

* Specifications shall be consistent with local Delivery Point requirements (including, without limitation RVP) at the time of delivery.

**Purchase and Sale obligations** for the preceding Products shall be for a term of three (3) calendar months (the "Transitional Term"). Either Party may terminate the purchase and sale obligations contained in this Schedule 2.1 by providing the other with at least thirty (30) Days' prior written notice.

**Price:** Prices for all products other than RUL, PUL and ULSD where the Delivery Point for such Products as reflected below is at the flange before the meter at the Truck Rack ("Rack System Products"), will be equal to the three day average price for such Product, determined by reference to the value derived from the pricing formula set forth below for such Product on the day of delivery or lifting and for one Business Day prior to and one Business Day after the date of delivery or lifting. If the transfer is Saturday, then the effective price for Thursday, Friday, and Monday shall be used. If the transfer is Sunday, then the effective price for Friday, Monday, and Tuesday shall be used so as to always use three separate quotations. If a holiday should occur on the day of delivery or lifting, and such holiday occurs on a Tuesday, Wednesday, Thursday, or Friday, then the effective price for the two Business Days prior to and one Business Day after the holiday shall be used. If a holiday should occur on the day of delivery or lifting, and such holiday occurs on a Monday, then the effective price for the one Business Day prior to and two Business Days after the holiday shall be used. Prices for the Rack System Products will be equal to value derived from the pricing formula set forth below for such Rack System Product on the day of lifting at the Truck Rack. If the lifting is Saturday, then the effective price shall be Friday. If the lifting is Sunday, then the effective price shall be calculated for Monday. If a holiday should occur on the day of lifting, and such holiday occurs on a Tuesday, Wednesday, Thursday, or Friday, then the effective price shall be calculated on the Business Day prior to the holiday. If a holiday should occur on the day of lifting, and such holiday occurs on a Monday, then the effective price shall be calculated for the Business Day following the holiday.

| **Product** | **Pricing Basis and Formulation** |
|---|---|
| RUL | [***] |
| PUL | [***] |
| ULSD | [***] |
| RUL Ultra Low Sulfur | [***] |
| Jet Fuel | [***] |
| Light Cycle Oil (LCO) | [***] |
| High Sulfur No. 2 Oil Blendstock (SRD) | [***] |

| Product | Pricing Basis and Formulation |
|---|---|
| Butane/Butylene | [***] |
| Poly C4 | [***] |
| Normal Butane | [***] |
| LPG Mix | [***] |
| Propane/Propylene | [***] |
| High Sulfur Slurry | [***] |
| Low Sulfur Atmospheric Tower Bottoms | [***] |
| Ammonium Thiosulfate | [***] |

**Delivery:**

| Product | Delivery Terms | Delivery Points |
|---|---|---|
| RUL | FOB Refinery (Dock); FCA Refinery (Rack & Pipeline) | At the flange before the meter at the Refinery Truck Rack and/or Refinery Dock and/or Colonial Pipeline |
| PUL | FCA Refinery | At the flange before the meter at the Refinery Truck Rack |
| RUL Ultra Low Sulfur | FCA Refinery | Colonial Pipeline |
| ULSD | FCA Refinery | At the flange before the meter at the Refinery Truck Rack |
| Jet Fuel | FOB Refinery (Dock); FCA Refinery (Pipeline) | Refinery Dock and/or Colonial Pipeline |
| Light Cycle Oil (LCO) | FOB Refinery | Refinery Dock |
| High Sulfur No. 2 Oil Blendstock (SRD) | FOB Refinery (Dock); FCA Refinery (Pipeline) | Refinery Dock and/or Colonial Pipeline |
| Butane/Butylene | FCA Refinery | Refinery Truck Rack |
| Poly C4 | FCA Refinery | Refinery Truck Rack |

| Product | Delivery Terms | Delivery Points |
| --- | --- | --- |
| Normal Butane | FCA Refinery | Refinery Truck Rack |
| LPG Mix | FCA Refinery | Promix Pipeline |
| Propane/Propylene | FCA Refinery | Into Railcars and/or Trucks at the Refinery |
| High Sulfur Slurry | FOB Refinery | Refinery Dock |
| Low Sulfur Atmospheric Tower Bottoms | FOB Refinery | Refinery Dock |
| Ammonium Thiosulfate | FOB Refinery (Dock);<br>FCA Refinery (Rack) | Refinery Truck Rack and/or Refinery Dock |

**Schedule 2.2**

**Products:** Regular Unleaded Gasoline ("RUL"), Premium Unleaded Gasoline ("PUL"), Light Cycle Oil ("LCO") and Straight Run Diesel ("SRD").

| Product | Grade | Specification | Volume Per Contract Year – BPD (+/- 20%) |
|---|---|---|---|
| RUL and PUL (Rack) | RUL 87(R+M)/2 and PUL 93(R+M)/2 | ASTM* | [***] |
| RUL (Dock) | RUL 87(R+M)/2 | ASTM* | [***] |
| LCO | N/A | Gravity – greater than 16<br>Flash – greater than 140°F<br>Distillation – EP less than 700°F<br>Sulfur – 1.5% max<br>Nitrogen Blanketed | [***] |
| SRD | 88 grade | Colonial Pipeline<br>Bromine No. = 3 max | [***] |

* Specifications shall be consistent with local Delivery Point requirements for rack and dock deliveries (including, without limitation RVP) and Colonial Pipeline for pipeline deliveries at the time of delivery.

**Grade:** For purposes of this Schedule 2.2, should Seller decide to provide Ethanol blended gasoline or to produce RUL 84(R+M)/2 during the contract period, Seller shall provide Buyer with at least sixty (60) Days' prior written notice of such plans. The Parties shall work in good faith to determine volume proportions or percentages of such grade of product that will be included in the contract volumes stated above and, for clarification, are not incremental or additional to such volumes.

**Purchase and Sale obligations** for the preceding Products shall commence upon the termination of the Transitional Term and will be for the initial term as set forth below (the "Offtake Term"), and thereafter the obligation shall continue on a month-to-month evergreen basis, unless and until terminated. Either Party may terminate the purchase and sale obligations contained in this Schedule 2.2 at the end of the Offtake Term or at the end of an extension term by providing the other with at least thirty (30) Days' prior written notice.

| Product | Offtake Term |
|---|---|
| RUL and PUL (Rack) | 1 year |
| RUL (Dock) | 1 year |
| LCO | 5 years |
| Straight-Run Diesel | 5 years |

**Price:** Prices for all products will be equal to the three day average price for such Product, determined by reference to the value derived from the pricing formula set forth below for such Product on the day of delivery or lifting and for one Business Day prior to and one Business Day after the date of delivery or lifting. If the transfer is Saturday, then the effective price for Thursday, Friday, and Monday shall be used. If the transfer is Sunday, then the effective price for Friday, Monday, and Tuesday shall be used so as to always use three separate quotations. If a holiday should occur on the day of delivery or lifting, and such holiday occurs on a Tuesday, Wednesday, Thursday, or Friday, then the effective price for the two Business Days prior to and one Business Day after the holiday shall be used. If a holiday should occur on the day of delivery or lifting, and such holiday occurs on a Monday, then the effective price for the one Business Day prior to and two Business Days after the holiday shall be used.

| Product | Delivery Terms | Delivery Point | Pricing Basis and Formulation |
|---|---|---|---|
| RUL and PUL | FCA Refinery | Refinery Truck Rack | [***] |
| RUL | FOB Refinery | Refinery Dock | [***] |
| RUL | FCA Refinery | Colonial Pipeline | [***] |
| LCO | FOB Refinery | Refinery Dock | [***] |
| SRD | FOB Refinery (Dock); FCA Refinery (Pipeline) | Refinery Dock or Colonial Pipeline | [***] |

**Delivery:** For dock delivery, included with the Final Offtake Nomination VMSC is to provide Seller all necessary shipping instructions, including without limitation, the identity and quantity of the Product and the tentative arrival date(s) ("Arrival Notice"). Upon receipt of VMSC's shipping instructions, Seller will advise VMSC as to the specific dock for delivery. If Seller will not be able to deliver VMSC's product on the communicated arrival date, Seller will advise as to the earliest time when VMSC's product may be delivered over the dock. VMSC will use commercially reasonable efforts to ensure that confirmation of the arrival date and time of a vessel will be communicated to Seller by VMSC's carrier at intervals of at least 24 and 12 hours in advance of the anticipated date and time of arrival of the vessel. Such communication may be effected by telephone, e-mail or facsimile.

The following represents Buyer's non-binding estimation of the ratable loading schedule for those products to be delivered via the Refinery docks and are included in the volumes set forth on Schedule 2.6.

[***] BPD RUL

- [***] barrel vessel arriving approximately every [***] days

[***] BPD LCO

- [***] barrel vessel arriving approximately every [***] days

[***] BPD SRD

- [***] barrel vessel day 1 and every [***] days thereafter
- [***] barrel vessel day 3 and every [***] days thereafter
- [***] barrel vessel day 6 and every [***] days thereafter

Seller agrees to exercise reasonable diligence to provide a safe berth at its owned facilities to which vessels may proceed, at which they may lie, at which they may discharge, and from which they may depart always safely afloat at all stages of the tide. Seller also agrees to provide free and maintain in good working order, all of Seller's facilities (including hoses, pipelines, and tankage, as well as labor and supervision) necessary on shore for loading.

**Schedule 2.6**

**Buyer's Good Faith Forecast for Product Demand**

| Product | Bbls/day | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RUL | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] |
| PUL | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] |
| LCO | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] |
| SRD | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] | [***] |

**Schedule 2.7**

**Seller's Good Faith Forecast for Product Production**

(Barrels Per Day)

| Product | Jul | Aug | Sep |
|---|---|---|---|
| RUL | [***] | [***] | [***] |
| RUL Ultra Low Sulfur | [***] | [***] | [***] |
| Jet Fuel | [***] | [***] | [***] |
| Light Cycle Oil (LCO) | [***] | [***] | [***] |
| High Sulfur No. 2 Oil Blendstock (SRD) | [***] | [***] | [***] |
| Butane/Butylene | [***] | [***] | [***] |
| Poly C4 | [***] | [***] | [***] |
| Normal Butane | [***] | [***] | [***] |
| LPG Mix | [***] | [***] | [***] |
| Propane/Propylene | [***] | [***] | [***] |
| High Sulfur Slurry | [***] | [***] | [***] |
| Low Sulfur Atmospheric Tower Bottoms | [***] | [***] | [***] |
| Ammonium Thiosulfate | [***] | [***] | [***] |

**Schedule 2.8**

**Maintenance Outage Days**

| Month/Year | Planned Maintenance Outages | Effects on Product Availability |
|---|---|---|
| July 2008 | n/a | n/a |
| August 2008 | n/a | n/a |
| September 2008 | n/a | n/a |
| October 2008 | n/a | n/a |
| November 2008 | n/a | n/a |
| December 2008 | n/a | n/a |
| January 2009 | n/a | n/a |
| February 2009 | Reformer (10-day outage)<br>LRU (10-day outage)<br>Isom Unit (17-day outage)<br>Exact days are TBD | No effect on Product availability provided that naptha can be exported from the refinery |
| March 2009 | n/a | n/a |
| April 2009 | n/a | n/a |
| May 2009 | n/a | n/a |
| June 2009 | n/a | n/a |

**EXHIBIT A**

**GENERAL TERMS AND CONDITIONS**

**1.** Definitions: Capitalized terms that are used herein and otherwise not defined shall have the meanings set forth in the main body of the Agreement (the "Main Document"). The following additional terms used in these General Terms and Conditions (these "General Conditions") shall have the following meanings:

"API" shall mean the American Petroleum Institute.

"API/ASTM Standard" shall mean the API and ASTM standard references as such are in effect as of the date hereof. In the event such standards are revised or modified during the Term of this Agreement, the revised or modified standards shall apply if legally required, and if not, after such revisions or modifications have been evaluated and accepted by the Parties.

"ASTM" shall mean the American Society for Testing and Materials.

"CPT" shall mean Carriage Paid To as described in Incoterms.

"FCA" shall mean Free Carrier as described in Incoterms.

"FOB" shall mean Free On Board as described in Incoterms.

"Incoterms" shall mean the 2000 edition of the trade terms published by the International Chamber of Commerce which shall apply to this Agreement to the extent that they do not conflict with the provisions of this Agreement.

"LIBOR" shall mean, as of any date of determination, the one-month London Interbank Offered Rate for U.S. dollars, determined at 11:00 a.m. London time, on the first Day of the calendar month in which the date of determination occurs (or, if the first Day of such calendar month is not a London Banking Day, the immediately preceding London Banking Day) offered by the National Westminster Bank or any successor thereto. For purposes of this definition, a "London Banking Day" is a Day on which dealings in deposits in U.S. dollars are transacted on the London interbank market.

**2.** Payment and Credit Terms: Payment and credit shall be made without discount, deduction, withholding, set-off or counterclaim in United States dollars by wire transfer of immediately available funds on or before the payment due date, as set forth in the Main Document, to the bank and account designated by Seller, against presentation to Buyer by Seller of a written invoice therefor together with other documents expressly specified for presentation for payment in the Main Document.

Seller shall have the right to assess finance charges at the LIBOR rate as reported in "The Wall Street Journal" for any month in which a balance is past due hereunder plus two percentage (2%) points against all past due amounts and all accrued but unpaid finance charges,

but not to exceed the maximum finance charges permitted by law. Buyer shall pay all Seller's costs (including attorneys' fees and court costs) of collecting past due payments.

When the payment due date falls on a Saturday or on a weekday, other than Monday, which is not a banking Day in New York then any such payment shall be made on the nearest preceding New York banking Day. When the payment due date falls on a Sunday or a Monday which is not a banking Day in New York such payment shall be made on the next following banking Day.

**3.** Title and Risk of Loss: Title to, and all risk of loss of or damage to any Product delivered shall pass as follows: when by or into any vessel, at the flange between the vessel's permanent hose connection and the shore line; when into any truck, tank car or pipeline, as the Product enters the receiving equipment, or, if received by a common carrier, when accepted by the carrier for shipment; when into storage (other than from vessels), as the Product enters the tank; and when by book or stock transfer, on the effective date of the transfer. It is expressly understood that the passage of title and risk of loss as set forth above is not conditioned on delivery or receipt of Bills of Lading.

**4.** Inspection and Measurement: API/ASTM Standards or the latest revisions thereof shall be complied with at all times. All volumes or quantities shall be adjusted per API/ASTM Standards. Metering systems shall conform to the API/ASTM Standards then in effect relative to meter calibration/accuracy.

Marine Vessels: Unless otherwise agreed, inspection and measurement of Product delivered hereunder shall be made by an independent petroleum inspector, the cost of which shall be borne equally by VMSC and Seller. At the designated point of custody and title transfer, a mutually acceptable independent inspector shall hand gauge and record static shore tank measurements immediately before and immediately after delivery of the Product to determine the volume of Product delivered. If relevant shore tank gauge measurements are not possible, then properly certified meter measurement is acceptable. If neither static shore tank measurement or certified meters are available then determination of the volumes will be agreed to by the parties.

Pipelines: Quantities delivered into or out of pipelines shall be measured by pipeline meters if available.

Tank Truck/Cars: Quantities delivered into or out of tank trucks/cars shall be based on meters or shore tanks or scales located at or near the applicable Delivery Point.

Seller shall permit Buyer to review and copy relevant meter proving records and witness proving tests as requested. Samples of Product transferred hereunder shall be retained for ninety (90) Days.

**5.** Warranty: Seller warrants:

**A.** That the Product conforms to the specifications set forth in the Main Document;

**B.** That Seller has free and clear title to the Product manufactured and delivered under this Agreement; and

**C.** That such Product shall be delivered free from lawful security interests, liens, taxes and encumbrances.

EXCEPT FOR THOSE EXPRESSLY STATED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY OTHER REPRESENTATIONS, GUARANTEES OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING THE IMPLIED WARRANTY OF MERCHANTABILITY AND THAT OF FITNESS FOR A PARTICULAR PURPOSE, AS APPLICABLE. NOTWITHSTANDING ANY COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE (OR LACK THEREOF) INCONSISTENT HEREWITH, SELLER HEREBY EXPRESSLY DISCLAIMS ANY AND ALL REPRESENTATIONS, GUARANTEES OR WARRANTIES, EXPRESS OR IMPLIED, OF MERCHANTABILITY OR FITNESS OF THE PRODUCT FOR A PARTICULAR PURPOSE. IN NO EVENT, REGARDLESS OF NEGLIGENCE, SHALL EITHER PARTY BE LIABLE FOR PUNITIVE DAMAGES.

All warranties made under this Agreement shall survive acceptance of or payment for the Product by VMSC.

**6.** Financial Responsibility: If either Party's payments or deliveries to the other Party shall be in arrears, or the financial responsibility of either Party becomes impaired or unsatisfactory in the opinion of the other Party, advance cash payment or satisfactory security shall be given upon demand, and shipments may be withheld until such payment or security is received. If such payment or security is not received within two (2) Days from demand therefor, the Party demanding such payment or security may terminate this Agreement. In the event either Party becomes insolvent, makes an assignment or any general arrangement for the benefit of creditors or if there are instituted by or against either Party proceedings in bankruptcy or under any insolvency law or law for reorganization, receivership or dissolution, the other Party may withhold shipments or terminate this Agreement, to the extent provided by Applicable Law. The exercise by either Party of any right reserved under this paragraph 6 shall be without prejudice to any claim for damages or any other right under this Agreement or Applicable Law.

**7.** Taxes: Any and all taxes, fees or other charges imposed or assessed by a Governmental Authority, the taxable incident of which is the transfer of title or the delivery of the Product hereunder, or the receipt of payment therefor, regardless of the character, method of calculation or measure of the levy or assessment, shall be paid by the Party upon whom the tax, fee or charge is imposed by Applicable Law. Notwithstanding anything contained herein to the contrary neither Party shall be responsible for the income, franchise, ad valorem or similar taxes of the other Party and each Party agrees to defend, indemnify and hold the other Party harmless from and against any such tax asserted by any Governmental Authority to be due and payable by the other Party.

VMSC shall provide to Seller all proper exemption certificates, prior to delivery, establishing that it is licensed to engage in tax free transactions with respect to the Product under all federal or state laws which may apply to this Agreement and the Product delivered hereunder.

VMSC shall (a) upon receipt of Seller's invoice pay or reimburse Seller for any such taxes, fees or charges Seller is required by Applicable Law to pay or (b) provide Seller upon demand with a valid exemption certificate.

**8.** Deliveries; Liftings: Deliveries shall be made within the delivery terminal's usual business hours provided that reasonable advance written notice of each delivery has been given by VMSC. Nominations for pipeline delivery shall be given during normal business hours in accordance with the pipeline's policies and time constraints. Seller's failure to deliver Product and VMSC's failure to lift Product, each in accordance with the terms and conditions of this Agreement for any reason other than those included in Section 6, Financial Responsibility, and Section 9, Force Majeure, shall constitute a default under this Agreement.

**9.** Force Majeure: In the event either Party is rendered unable, wholly or in part, to perform its obligations under this Agreement (other than to make payments due hereunder) for reasons beyond its reasonable control, including, without limitation, those due to: acts of God, floods, fires, explosions, extreme heat or cold, earthquake or storm; transportation difficulties, strikes, lockouts or other similar industrial disturbances; wars, acts of terrorism or sabotage; accident or breakage of equipment, machinery, or transportation facilities; or failure of transporters to furnish transportation, failure of suppliers to furnish supplies; or any law, rules, order or action of any court or instrumentality of the federal or any state government; or for any other similar cause or causes beyond its reasonable control, it is agreed that on such Party's giving notice in reasonable detail of such force majeure to the other Party, the obligations of the Party giving such notice shall be suspended from the date of receipt of such notice and for the continuance of any inability so caused, but for no longer period as may reasonably be required to, and such cause shall, so far as possible, be remedied with all reasonable dispatch; provided, however, that neither Party will be obligated to settle a strike or other labor disturbance in order to comply with such obligation. The term force majeure shall not apply to those events which merely make it more difficult or costly for Seller or VMSC to perform their obligations hereunder. VMSC and Seller further agree that at the conclusion of any force majeure event, neither VMSC nor Seller shall have any obligation to each other with respect to any quantities of Product not delivered as a consequence of such force majeure event. No condition of force majeure shall operate to extend the Term of this Agreement.

**10.** Hazard Warning Responsibility: With the other documents required hereunder, Seller shall provide to VMSC a Material Safety Data Sheet for each Product delivered hereunder. VMSC acknowledges that there may be hazards associated with the loading, unloading, transporting, handling or use of the Product sold hereunder, which may require that warnings be communicated to or other precautionary action taken with all persons handling, coming into contact with, or in any way concerned with the Products sold hereunder.

**11.** Drawback: Seller reserves the right to claim, receive and retain drawbacks on imported duty-paid feedstocks used in the manufacture of Products which it delivers hereunder. VMSC shall on request execute proofs of exportation, drawback claim forms and assignments in favor of Seller to enable Seller to establish its drawback rights under applicable regulations.

**12.** Limitation of Liability: IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY INCIDENTAL, SPECIAL, PUNITIVE, EXEMPLARY OR

CONSEQUENTIAL DAMAGES, INCLUDING LOST PROFITS, ARISING UNDER THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

**13. INDEMNITY: SELLER AND VMSC MUTUALLY COVENANT TO AND SHALL PROTECT, DEFEND, INDEMNIFY AND HOLD EACH OTHER AND THEIR RESPECTIVE AFFILIATES, DIRECTORS, OFFICERS, AGENTS AND CONTRACTORS HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS, DEMANDS, SUITS, LOSSES (INCLUDING WITHOUT LIMITATION, COSTS OF DEFENSE, ATTORNEYS' FEES, PENALTIES AND INTEREST), DAMAGES, CAUSES OF ACTION AND LIABILITY OF EVERY TYPE AND CHARACTER WITHOUT REGARD TO AMOUNT (TOGETHER, "LOSSES") CAUSED BY, ARISING OUT OF OR RESULTING FROM THE ACTS OR OMISSIONS OF NEGLIGENCE OR WRONGDOING OF SUCH INDEMNIFYING PARTY, ITS OFFICERS, EMPLOYEES, CONTRACTORS OR AGENTS WITH RESPECT TO THE PURCHASE AND SALE OF PRODUCTS HEREUNDER, EXCEPT TO THE EXTENT SUCH LOSSES ARE CAUSED BY, ARISE OUT OF OR RESULT FROM THE ACTS OR OMISSIONS OF NEGLIGENCE OR WRONGDOING OF THE INDEMNIFIED PARTY.**

**14.** Waiver: The delay or failure of any Party to enforce any of its rights under this Agreement arising from any default or breach by the other Party shall not constitute a waiver of any such default, breach, or any of the Party's rights relating thereto. No custom or practice which may arise between the Parties in the course of operating under this Agreement will be construed to waive any Parties' rights to either ensure the other Party's strict performance with the terms and conditions of this Agreement, or to exercise any rights granted to it as a result of any breach or default under this Agreement. Neither Party shall be deemed to have waived any right conferred by this Agreement or under any Applicable Law unless such waiver is set forth in a written document signed by the Party to be bound, and delivered to the other Party. No express waiver by either Party of any breach or default by the other Party shall be construed as a waiver of any future breaches or defaults by such other Party.

**15.** Assignment: This Agreement shall not be assigned by any party hereto (including by operation of law or otherwise) except with the prior written consent of the other parties hereto; provided, however, that (a) Seller may assign any of its rights and obligations to any Affiliate of Seller but no such assignment shall relieve Seller of its obligations hereunder and (b) Seller may assign its rights, title and interest hereunder to lenders and other creditors, or agents or trustees acting on behalf of any of the foregoing (collectively, a "Collateral Assignee"), as security for the performance of obligations of Seller to such financing sources, on the condition and with the understanding that, (i) to the extent of any such assignment, the Collateral Assignee shall be entitled, only upon written notice to VMSC of Collateral Assignee's exercise of any such security (a "Foreclosure Notice"), to exercise any and all rights of Seller hereunder, (ii) VMSC and its Affiliates shall be entitled to rely unconditionally upon a Foreclosure Notice in making any payments or performance hereunder to or for the benefit of the Collateral Assignee (or its designee(s) identified in the Foreclosure Notice), without thereby incurring any liability to Seller or any of Seller's Affiliates, (iii) neither VMSC nor any of its Affiliates shall be obligated to grant any extensions of time for performance, waive any of their rights or remedies hereunder, or assume any additional obligations or liabilities under this Agreement as a result of any collateral assignment of this Agreement to a Collateral Assignee or a Collateral Assignee's

exercise of its security so granted to it by Seller, and (iv) neither a collateral assignment of this Agreement by Seller to a Collateral Assignee nor any exercise by a Collateral Assignee of any security so granted to it by Seller shall release Seller from any of its obligations hereunder.

**16.** [Intentionally Not Used]

**17.** Section and Paragraph Headings: The section headings used in the Main Document and the paragraph headings used in these General Conditions are for convenience only and shall not limit or change the subject matter of this Agreement.

**18.** Audit: Each Party and its duly authorized representatives shall have access during customary business hours to the accounting records and other documents maintained by the other Party which relate to this Agreement and shall have the right to audit such records at any reasonable time or times within two (2) year after the delivery/receipt of Product provided for in this Agreement. However, a Party can only conduct one audit per year, and the same year cannot be re-audited.

**19.** Compliance with Laws: During the performance of this Agreement, each Party agrees to comply with all Applicable Laws.

**20.** Commissions and Gifts: No director, officer, employee or agent of either Party shall give or receive any commission, fee, rebate, gift or entertainment of significant value or cost in connection with this Agreement. Further, neither Party shall make any commission, fee, rebate, gift or entertainment of significant value or cost to any governmental official or employee in connection with this Agreement.

**21.** Choice of Law; Dispute Resolution: This Agreement shall be construed, interpreted and the rights of the parties determined in accordance with the laws of the State of Texas, exclusive of its conflict of laws principles. All controversies or disputes arising out of and related to this Agreement shall be resolved in accordance with the dispute resolution procedures set forth in Exhibit C of the SPA.

**22.** Jurisdiction; Consent to Service of Process; Waiver: Each of the Parties hereto agrees, subject to paragraph 21, that it shall bring any action or proceeding in respect of any claim arising out of or related to this Agreement, whether in tort or contract or at law or in equity, exclusively in any Federal or state court in the State of Texas and solely in connection with such claims, if any, (i) irrevocably submits to the exclusive jurisdiction of such courts, (ii) waives any objection to laying venue in any such action or proceeding in such courts, (iii) waives any objection that such courts are an inconvenient forum or do not have jurisdiction over it and (iv) agrees that service of process upon it may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to it at its address specified in Section 7.2 of the Agreement. The foregoing consents to jurisdiction and service of process shall not constitute general consents to service of process in the State of Texas for any purpose except as provided herein and shall not be deemed to confer rights on any Person (as such term is defined in the SPA) other than the Parties hereto. Each of the Parties hereto knowingly and intentionally, irrevocably and unconditionally waives trial by jury in any legal action or proceeding relating to this Agreement and for any counterclaim therein.

**23.** Availability of Equitable Relief: Each of the Parties hereto recognizes that irreparable injury will result from a breach of paragraph 24 of these General Conditions and that money damages will be inadequate to fully remedy the injury. In order to prevent such irreparable injury, the arbitrators selected pursuant to paragraph 21 shall have the power to grant temporary or permanent injunctive or other equitable relief. Notwithstanding paragraph 21, prior to the appointment of the arbitrators, a party hereto may, subject to paragraph 22, seek temporary injunctive relief from any court of competent jurisdiction; provided that the party seeking such relief shall (if arbitration has not already been commenced) simultaneously commence arbitration in compliance with the dispute resolution procedures. Such court ordered relief shall not continue more than 10 days after the appointment of the arbitrators (or in any event for longer than 60 days).

**24.** Confidentiality: The terms of this Agreement and any financial, technical or other proprietary information furnished or disclosed to a Party hereunder shall not be disclosed or made available to any other person or entity without the prior written consent of the other Party other than as contemplated hereunder; provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statute, rule, regulation (including any rule or regulation of, or agreement with, any self regulatory organization) or judicial, administrative or regulatory process, (ii) to counsel for VMSC and Seller, (iii) to auditors or accountants, (iv) in connection with any litigation to which VMSC or Seller is a party, (v) to an Affiliate of VMSC or Seller, (vi) by Seller to a potential purchaser of the Refinery, excluding information related to pricing and product specifications, (vii) to the extent necessary or desirable under the SPA or the Other Agreements (as defined in the SPA), and (viii) to the extent necessary or desirable to perform its obligations under this Agreement or the transactions contemplated hereby; provided, further, that unless specifically prohibited by applicable law or court order, each of VMSC and Seller shall, prior to disclosure thereof, notify the other Party of any request for disclosure of any such non-public information (A) by any Governmental Authority or representative thereof or (B) pursuant to legal process. Notwithstanding the above restrictions, neither Party shall have any obligation in respect of any disclosure of confidential information which is, or becomes, generally known to the public without breach of the terms of this Agreement, or if any disclosure of confidential information is required by court order or by order of any governmental or administrative tribunal having jurisdiction over the Parties. The confidentiality obligations in this section shall survive termination of this Agreement for an additional 2 calendar years.

**25.** Rights and Remedies Cumulative: The rights and remedies of the Parties under this Agreement shall be cumulative and non-exclusive of any other rights or remedies which each such Party may have at law or in equity.

**EXHIBIT B**

**EXHIBIT 10.10**

**[***] DENOTES CONFIDENTIAL MATERIALS OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT**

# EARNOUT AGREEMENT

This Earnout Agreement (this "Agreement"), is made, entered into and effective as of July 3, 2008 (the "Effective Date"), by and between Valero Refining and Marketing Company, a Delaware corporation ("Seller") and Alon Refining Krotz Springs, Inc., a Delaware corporation ("Buyer").

## WITNESSETH

**WHEREAS**, Buyer and Seller have entered into a Stock Purchase Agreement, dated as of May 7, 2008 (the "SPA"), and, as a condition to the consummation of the transactions contemplated by the SPA, Buyer and Seller (collectively, the "Parties", and each individually a "Party") are entering into this Agreement;

**NOW THEREFORE**, in consideration of the premises, the terms and conditions hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

## 1. DEFINED TERMS

As used in this Agreement, the following terms shall have the following meanings:

"Barrel" means 42 United States' standard gallons at 60 degrees Fahrenheit.

"Business Day" means a day other than Saturday, Sunday or any day on which banks located in the State of New York are authorized or obligated to close.

"Daily Average Crude Price" means the average of the high and low prices for First Month WTI-Cushing as quoted in Platt's for each day during an Earnout Year, converted to Barrels as applicable; provided that daily calculations on weekends and holidays will use prices published for the immediately preceding Friday or Business Day, respectively.

"Daily Average Gasoline Price" means the average of the high and low prices for Regular Unleaded Gasoline, US Gulf Coast Pipeline, as quoted in Platt's for each day during an Earnout Year, converted to Barrels as applicable; provided that daily calculations on weekends and holidays will use prices published for the immediately preceding Friday or Business Day, respectively.

"Daily Average ULSD Price" means the average of the high and low prices for Ultra Low Sulfur Diesel, US Gulf Coast Pipeline, as quoted in Platt's for each day during an Earnout Year, converted to Barrels as applicable; provided that daily calculations on weekends and holidays will use prices published for the immediately preceding Friday or Business Day, respectively.

"Earnout Year" means a 365-day period (or 366 days in case the period includes a February 29) beginning on the Effective Date, and ending on each subsequent anniversary thereof during the Term of this Agreement.

"Platt's" means Platt's Oilgram Price Report.

"Term" means three (3) years from the Effective Date, plus the amount of time required to calculate and pay the Earnout Payment for the final Earnout Year.

Any other capitalized terms in this Agreement not otherwise defined above shall have the meanings as defined herein.

**2. EARNOUT PAYMENTS**

2.1 For each of the three (3) Earnout Years during the Term of this Agreement, Buyer shall calculate and pay an earnout payment (the "Earnout Payment"), as required pursuant to the terms and conditions of this Agreement.

2.2 Within thirty (30) days after the expiration of each Earnout Year during the Term of this Agreement, Buyer shall calculate the amount of the Earnout Payment payable to Seller for such Earnout Year according to the formula set forth below (the "Earnout Payment Formula"):

[***]

2.3 For purposes of illustration only, the following is an example of how the Earnout Payment shall be calculated (all prices are $/barrel):

[***]

2.4 On the thirtieth (30th) day after the expiration of each Earnout Year during the Term of this Agreement (each, a "Notice Date"), Buyer shall transmit to Seller (pursuant to the notice provisions hereof) a statement of Buyer's calculation of the Earnout Payment using the Earnout Payment Formula in reasonable detail such that Seller can confirm the method of calculation. Such notice shall be transmitted regardless of whether the Earnout Payment is a positive or negative amount.

2.5 If the Earnout Payment is a positive amount, Buyer shall pay to Seller the amount of the Earnout Payment within seven (7) days of the Notice Date for the relevant Earnout Year (each, a "Due Date") in immediately available U.S. funds, by wire transfer to the following account:

[***]

or to such other U.S. Bank account as may hereafter be designated by Seller in writing. Each Earnout Payment shall be made without offset, setoff, counterclaim or deduction of

any kind. If the Earnout Payment is a negative amount, no payment shall be made by Buyer. Negative Earnout Payment amounts shall not carry forward to the following Earnout Year. If the Earnout Payment is not made within five (5) days of the relevant Due Date, then interest shall accrue on the unpaid balance thereof at the Applicable Rate (as defined in the SPA) from the day following the relevant Due Date until the Earnout Payment is made. If the Applicable Rate exceeds the highest legal interest rate, the interest rate shall be the then-current highest legal interest rate.

2.6 Seller shall notify Buyer of any dispute regarding Buyer's calculation of the Earnout Payment within thirty (30) days of receipt of the notice referenced in Section 2.4 hereof.

2.7 If any published price that is used in the calculation of the Earnout Payment is discontinued, the Parties shall negotiate in good faith a substitute method for determining such price based upon an arms-length, third-party price for a like product duly taking into account quality and transportation differentials, with preference given to quoted average prices available from publications similar to Platt's (including, if applicable, any successor to Platt's).

**3. MISCELLANEOUS**

3.1 Notices. Any and all notices herein prescribed shall be in writing and transmitted by personal delivery, by U.S. Postal Service as overnight or certified mail, by a nationally recognized delivery service for same day or overnight delivery or by facsimile to the respective parties as follows:

Valero Refining and Marketing Company
c/o Valero Energy Corporation
One Valero Way
San Antonio, Texas 78249
Attention: Senior Vice President and General Counsel
Telephone: (210) 345-2246
Facsimile: (210) 345-5889

Alon Refining Krotz Springs, Inc.
c/o Alon USA Energy, Inc.
7616 LBJ Freeway, Suite 300
Dallas, Texas 75251
Attention: General Counsel
Telephone: (972) 367-3702
Facsimile: (972) 367-3724

Receipt of all notices shall be determined by date/time stamp on received, confirmed fax or receipt date on any other form of delivery.

3.2 Amendment. This Agreement may be amended only by an instrument in writing executed by the Parties hereto.

3.3 Assignment. Seller may assign, in whole or in part, any of the rights, obligations or benefits arising under this Agreement without the consent of Buyer. Buyer shall not assign, in whole or in part, any of the rights, obligations or benefits arising under this Agreement without the prior written consent of Seller.

3.4 Successors Bound. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

3.5 Entire Agreement. This Agreement, the exhibits and the documents specifically referred to herein and any provision of the SPA incorporated herein by reference constitute the entire agreement, understanding, representations and warranties of the Parties hereto.

3.6 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

3.7 Choice of Law; Venue. This Agreement shall be construed, interpreted and the rights of the parties determined in accordance with the laws of the State of Texas, exclusive of its conflict of laws principles. Each of the Parties hereto agrees that it shall bring any action or proceeding in respect of any claim arising out of or related to this Agreement, whether in tort or contract or at law or in equity, exclusively in the Federal or state courts sitting in Houston, Harris County, Texas, and solely in connection with claims arising under such agreement or instrument or the transactions contained in or contemplated by such agreement or instrument, (i) irrevocably submits to the exclusive jurisdiction of such courts, (ii) waives any objection to laying venue in any such action or proceeding in such courts, (iii) waives any objection that such courts are an inconvenient forum or do not have jurisdiction over it and (iv) agrees that service of process upon it may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to it at its address specified in Section 3.1 of this Agreement.

[Remainder of Page Intentionally Left Blank]

**IN WITNESS WHEREOF**, the Parties have duly executed this Agreement effective as of the date first specified above.

**VALERO REFINING AND MARKETING COMPANY**

By: /s/ S. Eugene Edwards
Name: S. Eugene Edwards
Title: Executive Vice President

**ALON REFINING KROTZ SPRINGS, INC.**

By: /s/ Harlin R. Dean
Name: Harlin R. Dean
Title: Vice President

[Signature Page to Earnout Agreement]

**Exhibit 31.1**

## CERTIFICATIONS

I, Jeff D. Morris, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alon USA Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2008

By: /s/ Jeff D. Morris
Jeff D. Morris
Chief Executive Officer

**Exhibit 31.2**

## CERTIFICATIONS

I, Shai Even, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alon USA Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2008

By: /s/ Shai Even
Shai Even
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO §906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q of Alon USA Energy, Inc., a Delaware corporation (the “Company”), for the period ended June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: August 7, 2008

By: /s/ Jeff D. Morris
Jeff D. Morris
Chief Executive Officer

By: /s/ Shai Even
Shai Even
Chief Financial Officer