CVR PARTNERS, LP
Form 10-Q
May 02, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the fiscal period ended March 31, 2013

OR

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

For the transition period from to .
Commission file number: 001-35120

CVR Partners, LP

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**56-2677689** (I.R.S. Employer Identification No.)
2277 Plaza Drive, Suite 500 **Sugar Land, Texas** (Address of principal executive offices)	**77479** (Zip Code)

(281) 207-3200
(Registrant's telephone number, including area code)

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

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

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

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

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

There were 73,065,143 common units outstanding at April 30, 2013.

CVR Partners, LP and Subsidiaries

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For The Quarter Ended March 31, 2013

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GLOSSARY OF SELECTED TERMS

The following are definitions of certain terms used in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (this "Report"):

ammonia	Ammonia is a direct application fertilizer and is primarily used as a building block for other nitrogen products for industrial applications and finished fertilizer products.
catalyst	A substance that alters, accelerates, or instigates chemical changes, but is neither produced, consumed nor altered in the process.
Coffeyville Resources or CRLLC	Coffeyville Resources, LLC, the subsidiary of CVR Energy which directly owns our general partner and 50,920,000 common units, or approximately 70% of our common units.
common units	Common units representing limited partner interests of CVR Partners, LP.
corn belt	The primary corn producing region of the United States, which includes Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Ohio and Wisconsin.
CVR Energy	CVR Energy, Inc., a publicly traded company listed on the New York Stock Exchange under the ticker symbol "CVI," which indirectly owns our general partner and the common units owned by CRLLC.
CVR Refining	CVR Refining, LP, a publicly traded limited partnership listed on the New York Stock Exchange under the ticker symbol "CVRR," which currently operates a 115,000 bpd oil refinery in Coffeyville, Kansas, a 70,000 bpd oil refinery in Wynnewood, Oklahoma and ancillary businesses.
farm belt	Refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.
general partner	CVR GP, LLC, our general partner, which is a wholly-owned subsidiary of Coffeyville Resources.
Initial Public Offering	The initial public offering of CVR Partners, LP common units that closed on April 13, 2011.
MMbtu	One million British thermal units: a measure of energy. One Btu of heat is required to raise the temperature of one pound of water one degree Fahrenheit.
MSCF	One thousand standard cubic feet, a customary gas measurement.
on-stream	Measurement of the reliability of the gasification, ammonia and UAN units, defined as the total number of hours operated by each unit divided by the total number of hours in the reporting period.

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pet coke	Petroleum coke a coal-like substance that is produced during the refining process.
plant gate price	The unit price of fertilizer, in dollars per ton, offered on a delivered basis, and excluding shipment costs.
prepaid sales	Represents customer payments under contracts to guarantee a price and supply of fertilizer in quantities expected to be delivered in the next twelve months. Revenue is not recorded for such sales until the product is considered delivered. Prepaid sales are also referred to as deferred revenue.
ton	One ton is equal to 2,000 pounds.
turnaround	A periodically required standard procedure to refurbish and maintain a facility that involves the shutdown and inspection of major processing units.
UAN	UAN is an aqueous solution of urea and ammonium nitrate used as a fertilizer.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CVR Partners, LP and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (unaudited)	December 31, 2012
	(dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 153,242	$ 127,848
Accounts receivable, net of allowance for doubtful accounts of $98 and $84, at March 31, 2013 and December 31, 2012, respectively	11,420	6,805
Inventories	32,224	28,949
Prepaid expenses and other current assets, including $376 and $605 from affiliates at March 31, 2013 and December 31, 2012, respectively	2,672	2,446
Total current assets	199,558	166,048
Property, plant, and equipment, net of accumulated depreciation	415,379	411,600
Intangible assets, net	29	30
Goodwill	40,969	40,969
Deferred financing costs	1,962	2,200
Other long-term assets, including $1,272 and $1,315 with affiliates at March 31, 2013 and December 31, 2012, respectively	2,216	2,107
Total assets	$ 660,113	$ 622,954
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable, including $3,151 and $3,220 due to affiliates at March 31, 2013 and December 31, 2012, respectively	$ 22,107	$ 34,099
Personnel accruals, including $601 and $1,865 with affiliates at March 31, 2013 and December 31, 2012, respectively	2,443	4,931
Deferred revenue	28,604	965
Accrued expenses and other current liabilities, including $551 and $553 with affiliates at March 31, 2013 and December 31, 2012, respectively	10,868	9,480
Total current liabilities	64,022	49,475
Long-term liabilities:		
Long-term debt, net of current portion	125,000	125,000
Other long-term liabilities, including $239 and $355 with affiliates at March 31, 2013 and December 31, 2012, respectively	1,975	2,286
Total long-term liabilities	126,975	127,286
Commitments and contingencies		
Partners' capital:		
Common unitholders, 73,065,143 units issued and outstanding at March 31, 2013 and December 31, 2012	471,654	448,943
General partner's interest	1	1
Accumulated other comprehensive loss	(2,539)	(2,751)

Total partners' capital		469,116		446,193
Total liabilities and partners' capital	$	660,113	$	622,954

See accompanying notes to condensed consolidated financial statements.

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CVR Partners, LP and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(unaudited) (in thousands, except per unit data)	
Net sales	$ 81,411	$ 78,276
Operating costs and expenses:		
Cost of product sold (exclusive of depreciation and amortization) Affiliates	3,089	2,990
Cost of product sold (exclusive of depreciation and amortization) Third parties	7,565	9,608
	10,654	12,598
Direct operating expenses (exclusive of depreciation and amortization) Affiliates	1,003	381
Direct operating expenses (exclusive of depreciation and amortization) Third parties	21,554	22,456
	22,557	22,837
Selling, general and administrative expenses (exclusive of depreciation and amortization) Affiliates	4,219	3,819
Selling, general and administrative expenses (exclusive of depreciation and amortization) Third parties	1,411	2,158
	5,630	5,977
Depreciation and amortization	5,767	5,438
Total operating costs and expenses	44,608	46,850
Operating income	36,803	31,426
Other income (expense):		
Interest expense and other financing costs (Note 12)	(1,280)	(1,203)
Interest income	30	33
Other income, net	9	6
Total other income (expense)	(1,241)	(1,164)
Income before income tax expense	35,562	30,262
Income tax expense	9	18
Net income	$ 35,553	$ 30,244
Net income per common unit basic	$ 0.49	$ 0.41
Net income per common unit diluted	$ 0.49	$ 0.41
Weighted-average common units outstanding:		
Basic	73,065	73,031
Diluted	73,233	73,196

See accompanying notes to condensed consolidated financial statements.

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CVR Partners, LP and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2013	**2012**
	(unaudited) (in thousands)	
Net income	$ 35,553	$ 30,244
Other comprehensive income (loss):		
Change in fair value of interest rate swap	(46)	(235)
Reclass of gain/loss to income on settlement of interest rate swap (Note 12)	258	231
Other comprehensive income (loss)	212	(4)
Total comprehensive income	$ 35,765	$ 30,240

See accompanying notes to condensed consolidated financial statements.

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CVR Partners, LP and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2013	**2012**
	(unaudited)	
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 35,553	$ 30,244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,767	5,438
Allowance for doubtful accounts	(14)	4
Amortization of deferred financing costs	238	238
Loss on disposition of fixed assets		7
Share-based compensation Affiliates	1,186	1,124
Share-based compensation	93	122
Change in assets and liabilities:		
Accounts receivable	(4,601)	3,637
Inventories	(3,275)	1,462
Prepaid expenses and other current assets	(229)	(414)
Other long-term assets	(82)	(82)
Accounts payable	(3,497)	3,274
Deferred revenue	27,639	7,004
Accrued expenses and other current liabilities	(1,229)	1,944
Other long-term liabilities	(64)	(188)
Net cash provided by operating activities	57,485	53,814
Cash flows from investing activities:		
Capital expenditures	(18,063)	(22,274)
Net cash used in investing activities	(18,063)	(22,274)
Cash flows from financing activities:		
Distributions to common unitholders affiliates	(9,776)	(29,941)
Cash distribution to common unitholders non-affiliates	(4,252)	(13,001)
Net cash used in financing activities	(14,028)	(42,942)
Net increase (decrease) in cash and cash equivalents	25,394	(11,402)
Cash and cash equivalents, beginning of period	127,848	236,975
Cash and cash equivalents, end of period	$ 153,242	$ 225,573
Supplemental disclosures:		
Cash paid for income taxes	$ 6	$
Cash paid for interest, net of capitalized interest of $422 and $545 in 2013 and 2012, respectively	$ 1,064	$ 1,300
Non-cash investing and financing activities:		
Accrual of construction in progress additions	$ (8,495)	$ (2,970)

See accompanying notes to condensed consolidated financial statements.

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CVR Partners, LP and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

	Common Units		General Partner	Accumulated Other Comprehensive	
	Issued	Amount	Interest	Income/(Loss)	Total
			(unaudited)		
		(in thousands, except unit data)			
Balance at December 31, 2012	73,065,143	$ 448,943	$ 1	$ (2,751)	$ 446,193
Cash distributions to common unitholders Affiliates		(9,776)			(9,776)
Cash distributions to common unitholders Non-affiliates		(4,252)			(4,252)
Share-based compensation Affiliates		1,186			1,186
Net income		35,553			35,553
Net gains (losses) on interest rate swaps				212	212
Balance at March 31, 2013	73,065,143	$ 471,654	$ 1	$ (2,539)	$ 469,116

See accompanying notes to condensed consolidated financial statements.

CVR Partners, LP and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(unaudited)

(1) Formation of the Partnership, Organization and Nature of Business

Organization

CVR Partners, LP (referred to as "CVR Partners" or the "Partnership") is a Delaware limited partnership, formed in June 2007 by CVR Energy, Inc. (together with its subsidiaries, but excluding the Partnership and its subsidiary, "CVR Energy") to own Coffeyville Resources Nitrogen Fertilizers, LLC ("CRNF"). CRNF is an independent producer and marketer of upgraded nitrogen fertilizer products sold in North America. CRNF operates a dual-train coke gasifier plant that produces high-purity hydrogen, most of which is subsequently converted to ammonia and upgraded to urea ammonium nitrate ("UAN").

CRNF produces and distributes nitrogen fertilizer products, which are used primarily by farmers to improve the yield and quality of their crops. CRNF's principal products are ammonia and UAN. These products are manufactured at CRNF's facility in Coffeyville, Kansas. CRNF's product sales are heavily weighted toward UAN and all of its products are sold on a wholesale basis.

CVR Energy Transaction Agreement

On April 18, 2012, CVR Energy entered into a Transaction Agreement (the "Transaction Agreement") with IEP Energy LLC (the "Offeror"), a majority owned subsidiary of Icahn Enterprises, L.P. ("Icahn Enterprises") and certain other affiliates of Icahn Enterprises, and Carl C. Icahn (collectively with the Offeror, the "Offeror Parties"). Pursuant to the Transaction Agreement, the Offeror offered (the "Offer") to purchase all of the issued and outstanding shares of CVR Energy's common stock (the "Shares") for a price of $30.00 per Share in cash, without interest, less any applicable withholding taxes, plus one non-transferable contingent cash payment ("CCP") right for each Share which represents the contractual right to receive an additional cash payment per share if a definitive agreement for the sale of CVR Energy is executed on or before August 18, 2013 and such transaction closes.

On May 7, 2012, Offeror Parties announced that control of CVR Energy had been acquired through the Offer. As a result of Shares tendered into the Offer during the initial offering period, the subsequent offering period and subsequent additional purchases, the Offeror owned approximately 82% of the Shares of CVR Energy as of March 31, 2013.

Operation of Partnership

Subsequent to the closing of the Partnership's initial public offering in April 2011, (the "Initial Public Offering"), public security holders held approximately 30% of the Partnership's common units and Coffeyville Resources, LLC ("CRLLC"), a wholly-owned subsidiary of CVR Energy, held approximately 70% of the Partnership's common units and the general partner interest.

CVR GP, LLC ("CVR GP" or the "general partner") manages and operates the Partnership. Common unitholders have only limited voting rights on matters affecting the Partnership. In addition, common unitholders have no right to elect the general partner's directors on an annual or continuing basis.

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CVR Partners, LP and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

(unaudited)

(1) Formation of the Partnership, Organization and Nature of Business (Continued)

The Partnership is operated by a combination of the general partner's senior management team and CVR Energy's senior management team pursuant to a services agreement among CVR Energy, CVR GP and the Partnership. In October 2007, the Partnership's partners at that time entered into an amended and restated limited partnership agreement setting forth their various rights and responsibilities. The Partnership also entered into a number of agreements with CVR Energy and CVR GP to regulate certain business relations between the Partnership and the other parties thereto. See Note 15 ("Related Party Transactions") for further discussion. In connection with the Initial Public Offering, certain of these agreements, including the amended and restated limited partnership agreement, were amended and/or restated.

(2) Basis of Presentation

The accompanying condensed consolidated financial statements of CVR Partners are comprised of the operations of CRNF's nitrogen fertilizer business. The accompanying condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and in accordance with the rules and regulations of the SEC, including Article 3 of Regulation S-X, "General Instructions as to Consolidated Financial Statements."

The condensed consolidated financial statements include certain selling, general and administrative expenses (exclusive of depreciation and amortization) and direct operating expenses (exclusive of depreciation and amortization) that CVR Energy incurred on behalf of the Partnership. These related party transactions are governed by the amended and restated services agreement originally entered into in October 2007. See Note 15 ("Related Party Transactions") for additional discussion of the services agreement and billing and allocation of certain costs. The amounts charged or allocated to the Partnership are not necessarily indicative of the cost that the Partnership would have incurred had it operated as an independent entity.

In the opinion of the Partnership's management, the accompanying unaudited condensed consolidated financial statements and related notes reflect all adjustments that are necessary to fairly present the financial position of the Partnership as of March 31, 2013 and December 31, 2012, the results of operations and comprehensive income of the Partnership for the three months ended March 31, 2013 and 2012, the cash flows of the Partnership for the three months ended March 31, 2013 and 2012 and the changes in partners' capital for the Partnership for the three month period ended March 31, 2013.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that reflect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. Results of operations and cash flows are not necessarily indicative of the results that will be realized for the year ended December 31, 2013 or any other interim period.

(3) Recent Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *"Disclosures about Offsetting Assets and Liabilities"* ("ASU 2011-11"). ASU 2011-11 retains the existing offsetting requirements and enhances

CVR Partners, LP and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

(unaudited)

(3) Recent Accounting Pronouncements (Continued)

the disclosure requirements to allow investors to better compare financial statements prepared under U.S. GAAP with those prepared under IFRS. On January 31, 2013, the FASB issued ASU No. 2013-01, "*Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities"* ("ASU 2013-01"). ASU 2013-01 limits the scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements and securities lending transactions. Both standards are effective for interim and annual periods beginning January 1, 2013 and have been applied retrospectively. The Partnership adopted these standards as of January 1, 2013. The adoption of these standards did not impact the Partnership's condensed consolidated financial statement footnote disclosures.

In February 2013, the FASB issued ASU No. 2013-02, *"Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income"* ("ASU 2013-02"). ASU 2013-02 requires the Partnership to present information about reclassification adjustments from accumulated other comprehensive income in the financial statements in a single footnote or parenthetically on the face of the financial statements based on the source and the income statement line items affected by the reclassification. The standard is effective for interim and annual periods beginning January 1, 2013 and has been applied prospectively. The Partnership adopted this standard as of January 1, 2013. The adoption of this standard expanded the Partnership's condensed consolidated financial statement footnote disclosures.

(4) Share-Based Compensation

Certain employees of CRNF and employees of CVR Energy who perform services for the Partnership under the services agreement with CVR Energy participate in equity compensation plans of CVR Partners' affiliates. Accordingly, CVR Partners has recorded compensation expense for these plans in accordance with Staff Accounting Bulletin, or SAB Topic 1-B "Allocations of Expenses and Related Disclosures in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity" and in accordance with guidance regarding the accounting for share-based compensation granted to employees of an equity method investee. All compensation expense related to these plans for full-time employees of CVR Partners has been allocated 100% to CVR Partners. For employees covered by the services agreement with CVR Energy, the Partnership records share-based compensation relative to the percentage of time spent by each employee providing services to the Partnership as compared to the total calculated share-based compensation by CVR Energy. The Partnership is not responsible for payment of CVR Energy's share-based compensation and all expense amounts are reflected as an increase or decrease to Partners' Capital.

Long-Term Incentive Plan CVR Energy

CVR Energy has a Long-Term Incentive Plan ("CVR Energy LTIP") that permits the grant of options, stock appreciation rights, restricted shares, restricted share units, dividend equivalent rights, share awards and performance awards (including performance share units, performance units and performance based restricted stock). As of March 31, 2013, only grants of restricted stock units under the CVR Energy LTIP remain unvested. Individuals who are eligible to receive awards and grants under the CVR Energy LTIP include CVR Energy's or its subsidiaries' (including CRNF) employees, officers, consultants and directors.

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CVR Partners, LP and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

(unaudited)

(4) Share-Based Compensation (Continued)

Restricted Shares

Through the CVR Energy LTIP, shares of restricted common stock and restricted stock units (collectively "restricted shares") have been granted to employees of CVR Energy and CRNF. Restricted shares, when granted, were historically valued at the closing market price of CVR Energy's common stock on the date of issuance and amortized to compensation expense on a straight-line basis over the vesting period of the common stock. These restricted shares generally vest over a three-year period.

The Transaction Agreement, as described in Note 1 ("Formation of the Partnership, Organization and Nature of Business"), triggered a modification to the treatment of outstanding restricted shares under the CVR Energy LTIP. Pursuant to the Transaction Agreement, all restricted shares scheduled to vest in 2012 were converted to restricted stock units whereby the recipient received cash settlement of the offer price of $30.00 per share in cash plus one CCP upon vesting. Restricted shares scheduled to vest in 2013, 2014 and 2015 were converted to restricted stock units whereby the awards will be settled in a cash upon vesting in an amount equal to the lesser of the offer price or the fair market value as determined at the most recent valuation date of December 31 of each year. For awards vesting subsequent to 2012, the awards will be remeasured at each subsequent reporting date until they vest.

In December 2012, restricted stock units were granted to certain employees of CVR Energy and its subsidiaries. The non-vested restricted stock units are expected to vest over three years with one-third of the award vesting each year with the exception of awards granted to certain executive officers of CVR Energy which vest over one year. Each restricted stock unit represents the right to receive, upon vesting, a cash payment equal to (a) the fair market value of one share of CVR Energy's common stock, plus (b) the cash value of all dividends declared and paid per share of CVR Energy's common stock from the grant date to and including the vesting date. The awards will be remeasured at each subsequent reporting date until they vest.

Assuming the allocation of costs from CVR Energy remains consistent with the allocation percentages in place at March 31, 2013, there was approximately $1.8 million of total unrecognized compensation cost related to restricted shares to be recognized over a weighted-average period of approximately 0.8 years. Inclusion of the vesting table is not considered meaningful due to changes in allocation percentages that occur from time to time. The unrecognized compensation expense has been determined by the number of restricted shares and respective allocation percentage for individuals for whom, as of March 31, 2013, compensation expense has been allocated to the Partnership. Compensation expense recorded for the three months ended March 31, 2013 and 2012, related to the restricted shares, was approximately $0.6 million and $0.6 million, respectively.

Long-Term Incentive Plan CVR Partners

In connection with the Initial Public Offering, the board of directors of the general partner adopted the CVR Partners, LP Long-Term Incentive Plan ("CVR Partners LTIP"). Individuals who are eligible to receive awards under the CVR Partners LTIP include (1) employees of the Partnership and its subsidiaries and (2) employees of the general partner and to (3) members of the board of directors of the general partner. The CVR Partners LTIP provides for the grant of options, unit appreciation

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CVR Partners, LP and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

(unaudited)

(4) Share-Based Compensation (Continued)

rights, distribution equivalent rights, restricted units, phantom units and other unit-based awards, each in respect of common units. The maximum number of common units issuable under the CVR Partners LTIP is 5,000,000.

Through the CVR Partners LTIP, phantom and common units have been awarded to employees of the Partnership and the general partner and to members of the board of directors of the general partner. Phantom unit awards made to employees and members of the board of directors of the general partner are considered a non-employee equity based award and are required to be marked-to-market each reporting period until they vest. Awards to employees of the Partnership and the general partner vest over a three year period and awards to members of the board of directors of the general partner generally vest immediately on the grant date.

In December 2012, the board of directors of the general partner approved an amendment to modify the terms of certain phantom unit awards previously granted to employees of the Partnership and its subsidiaries. Prior to the amendment, the phantom units, when granted, were valued at the closing market price of the Partnership's common units on the date of issuance and amortized to compensation expense on a straight-line basis over the vesting period of the units.

The amendment triggered a modification to the awards by providing the phantom units would be settled in cash rather than common units of the Partnership. For awards vesting subsequent to the amendment, the awards will be remeasured at each subsequent reporting date until they vest. As a result of the modification of the awards, the classification changed from equity-classified awards to liability-classified awards.

A summary of the common units and phantom units (collectively "Units") activity during the three months ended March 31, 2013 is presented below:

	Units	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2012	201,812	$ 23.70
Granted		
Vested		
Forfeited		
Non-vested at March 31, 2013	201,812	$ 23.70

Unrecognized compensation expense associated with the unvested phantom units at March 31, 2013 was approximately $3.0 million and is expected to be recognized over a weighted average period of 1.36 years. Compensation expense recorded for the three months ended March 31, 2013 and 2012 related to the awards under the CVR Partners LTIP was approximately $0.6 million and $0.7 million, respectively. Compensation expense related to the awards issued to employees and members of the board of directors of the general partner under the CVR Partners LTIP has been recorded in direct operating expenses (exclusive of depreciation and amortization) affiliates or selling, general and administrative expenses (exclusive of depreciation and amortization) affiliates, as applicable. As of March 31, 2013, the Partnership has a liability of $0.3 million for unvested phantom unit awards related

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CVR Partners, LP and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

(unaudited)

(4) Share-Based Compensation (Continued)

to employees of the Partnership and its subsidiaries, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

(5) Inventories

Inventories consist of fertilizer products which are valued at the lower of first-in, first-out ("FIFO") cost, or market. Inventories also include raw materials, catalysts, parts and supplies, which are valued at the lower of moving-average cost, which approximates FIFO, or market. The cost of inventories includes inbound freight costs.

Inventories consisted of the following:

	March 31, 2013	December 31, 2012
	(in thousands)	
Finished goods	$ 6,201	$ 5,234
Raw materials and precious metals	10,293	7,038
Parts and supplies	15,730	16,677
	$ 32,224	$ 28,949

(6) Property, Plant, and Equipment

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

	March 31, 2013	December 31, 2012
	(in thousands)	
Land and improvements	3,787	$ 2,611
Buildings and improvements	1,611	1,223
Machinery and equipment	527,691	403,682
Automotive equipment	356	357
Furniture and fixtures	346	343
Railcars	2,496	2,496
Construction in progress	16,397	132,428
	552,684	$ 543,140
Less: Accumulated depreciation	137,305	131,540
Total net, property, plant and equipment	$ 415,379	$ 411,600

Capitalized interest recognized as a reduction of interest expense for the three months ended March 31, 2013 and 2012 totaled approximately $0.4 million and $0.6 million, respectively.

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CVR Partners, LP and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2013

(unaudited)

(7) Partners' Capital and Partnership Distributions

The Partnership has two types of partnership interests outstanding:

- common units; and
- a general partner interest, which is not entitled to any distributions, and which is held by the general partner.

At March 31, 2013, the Partnership had a total of 73,065,143 common units issued and outstanding, of which 50,920,000 common units were owned by CRLLC, representing approximately 70% of the total Partnership units outstanding.

The board of directors of the Partnership's general partner has adopted a policy for the Partnership to distribute all available cash generated on a quarterly basis. Cash distributions will be made to the common unitholders of record on the applicable record date, generally within 45 days after the end of each quarter. Available cash for each quarter will be determined by the board of directors of the general partner following the end of such quarter. Available cash for each quarter will generally begin with Adjusted EBITDA reduced for cash needed for net interest expense (excluding capitalized interest) and debt service and other contractual obligations, maintenance capital expenditures and, to the extent applicable, major scheduled turnaround expense incurred and reserves for future operating or capital needs that the board of directors of the general partner deems necessary or appropriate, if any. Available cash for distributions may be increased by previously established cash reserves, if any, at the discretion of the board of directors of our general partner.

On February 14, 2013, the Partnership paid out a cash distribution to the Partnership's unitholders of record at the close of business on February 7, 2013 for the fourth quarter of 2012 in the amount of $0.192 per unit, or $14.0 million in aggregate.

(8) Net Income Per Common Unit

The Partnership's net income is allocated wholly to the common units as the general partner does not have an economic interest. Basic and diluted net income per common unit is calculated by dividing net income by the weighted-average number of common units outstanding during the period and, when applicable, gives effect to phantom units and unvested common units granted under the CVR Partners LTIP. The common units issued during the period are included on a weighted-average basis for the days in which they were outstanding.

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(8) Net Income Per Common Unit (Continued)

The following table illustrates the Partnership's calculation of net income per common unit (in thousands, except per unit information):

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income	$ 35,553	$ 30,244
Net income per common unit, basic	$ 0.49	$ 0.41
Net income per common unit, diluted	$ 0.49	$ 0.41
Weighted-average common units outstanding, basic	73,065	73,031
Weighted-average common units outstanding, diluted	73,233	73,196

(9) Cost Classifications

Direct operating expenses (exclusive of depreciation and amortization) includes direct costs of labor, maintenance and services, energy and utility costs, property taxes, and environmental compliance costs as well as chemical and catalyst and other direct operating expenses. Direct operating expenses also include allocated non-cash share-based compensation expense from CVR Energy, as discussed in Note 4 ("Share-Based Compensation"). Direct operating expenses exclude depreciation and amortization of approximately $5.7 million and $5.4 million for the three months ended March 31, 2013 and 2012, respectively.

(10) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

	March 31, 2013	December 31, 2012
	(in thousands)	
Property taxes	$ 7,795	$ 7,116
Other current liabilities (interest rate swap)	840	862
Accrued interest	479	500
Other accrued expenses and liabilities(1)	1,754	1,002
	$ 10,868	$ 9,480

(1) Other accrued expenses and liabilities include amounts owed by the Partnership to Coffeyville Resources Refining & Marketing, LLC ("CRRM"), a related party, under the feedstock and shared services agreement. See Note 15 ("Related Party Transactions") for additional discussion of amounts the Partnership owes related to the feedstock and shared services agreement.

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CVR Partners, LP and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(11) Credit Facility

Concurrently with the closing of the Initial Public Offering, on April 13, 2011, CRNF as borrower and CVR Partners, as guarantor, entered into a credit facility with a group of lenders including Goldman Sachs Lending Partners LLC, as administrative and collateral agent. The credit facility includes a term loan facility of $125.0 million and a revolving credit facility of $25.0 million with an uncommitted incremental facility of up to $50.0 million. No amounts were outstanding under the revolving credit facility at March 31, 2013. There is no scheduled amortization and the credit facility matures in April 2016. The revolving credit facility is used to finance on-going working capital, capital expenditures, letters of credit issuances and general needs of the Partnership.

Borrowings under the credit facility bear interest at either a Eurodollar rate or a base rate plus in either case a margin based on a pricing grid determined by the trailing four quarter leverage ratio. The margin for borrowings under the credit facility ranges from 3.50% to 4.25% for Eurodollar loans and 2.50% to 3.25% for base rate loans. Currently, the interest rate is either the Eurodollar rate plus a margin of 3.50% or, for base rate loans, the prime rate plus 2.50%. Under its terms, the lenders under the credit facility were granted a first priority security interest (subject to certain customary exceptions) in substantially all of the assets of CVR Partners and CRNF.

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

As of March 31, 2013, CRNF was in compliance with the covenants contained in the credit facility.

(12) Interest Rate Swap

On June 30 and July 1, 2011 CRNF entered into two floating-to-fixed interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of its $125.0 million floating rate term debt which matures in April 2016. See Note 11 ("Credit Facility"). The aggregate notional amount covered under these agreements, which commenced on August 12, 2011 and expires on February 12, 2016, totals $62.5 million (split evenly between the two agreement dates). Under the terms of the interest rate swap agreement entered into on June 30, 2011, CRNF receives a floating rate based on three month LIBOR and pays a fixed rate of 1.94%. Under the terms of the interest rate swap agreement entered into on July 1, 2011, CRNF receives a floating rate based on three month LIBOR and pays a fixed rate of 1.975%. Both swap agreements will be settled every 90 days. The effect of these swap agreements is to lock in a fixed rate of interest of approximately 1.96% plus the applicable margin paid to lenders over three month LIBOR as calculated under the credit facility. At March 31, 2013, the effective rate was approximately 4.58%. The agreements were designated as cash flow hedges at inception and accordingly, the effective portion of the gain or loss on

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(12) Interest Rate Swap (Continued)

the swap is reported as a component of accumulated other comprehensive income (loss) ("AOCI"), and will be reclassified into interest expense when the interest rate swap transaction affects earnings. The ineffective portion of the gain or loss will be recognized immediately in current interest expense. The realized loss on the interest rate swap reclassified from AOCI into interest expense and other financing costs on the Condensed Consolidated Statement of Operations was $0.3 million and $0.2 million for the three months ended March 31, 2013 and 2012, respectively.

The interest rate swap agreements held by the Nitrogen Fertilizer Partnership also provide for the right to setoff. However, as the interest rate swaps are in a liability position, there are no amounts offset in the Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012.

(13) Income Taxes

CVR Partners is treated as a partnership for U.S. federal income tax purposes. Generally, each common unitholder is required to take into account its respective share of CVR Partners' income, gains, loss and deductions. The Partnership is not subject to income taxes, except for a franchise tax in the state of Texas. The income tax liability of the common unitholders is not reflected in the condensed consolidated financial statements of the Partnership.

(14) Commitments and Contingencies

Leases and Unconditional Purchase Obligations

The minimum required payments for the Partnership's operating leases and unconditional purchase obligations are as follows:

	Operating Leases	Unconditional Purchase Obligations(1)
	(in thousands)	
Nine months ending December 31, 2013	$ 4,567	$ 15,317
Year ending December 31, 2014	4,864	14,337
Year ending December 31, 2015	4,373	13,540
Year ending December 31, 2016	3,960	13,784
Year ending December 31, 2017	2,009	14,032
Thereafter	6,231	105,445
	$ 26,004	$ 176,455

(1) The Partnership's purchase obligation for pet coke from CVR Refining has been derived from a calculation of the average pet coke price paid to CVR Refining over the preceding two year period.

CRNF leases railcars and facilities under long-term operating leases. Lease expense for the three months ended March 31, 2013 and 2012 totalled approximately $1.4 million and $1.0 million, respectively. The lease agreements have various remaining terms. Some agreements are renewable, at

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(14) Commitments and Contingencies (Continued)

CRNF's option, for additional periods. It is expected, in the ordinary course of business, that leases will be renewed or replaced as they expire.

CRNF has an agreement with the City of Coffeyville (the "City") pursuant to which it must make a series of future payments for the supply, generation and transmission of electricity based upon agreed upon rates. This agreement expires on July 1, 2019.

During 2005, CRNF entered into the Amended and Restated On-Site Product Supply Agreement with The BOC Group, Inc. (as predecessor in interest to Linde LLC). Pursuant to the agreement, which expires in 2020, CRNF is required to take as available and pay approximately $300,000 per month, which amount is subject to annual inflation adjustments, for the supply of oxygen and nitrogen to the fertilizer operation. Expenses associated with this agreement are included in direct operating expenses (exclusive of depreciation and amortization) and for the three months ended March 31, 2013 and 2012 total approximately $1.0 million and $1.2 million, respectively.

The Partnership entered into a pet coke supply agreement with HollyFrontier Corporation which became effective on March 1, 2012. The initial term ends in December 2013 and the agreement is subject to renewal. Expenses related to the pet coke supply agreement total approximately $1.5 million and $0.5 million for the three months ended March 31, 2013 and 2012, respectively, which are recorded in cost of product sold (exclusive of depreciation and amortization).

Litigation

From time to time, the Partnership is involved in various lawsuits arising in the normal course of business, including matters such as those described below under "Environmental, Health, and Safety ("EHS") Matters." Liabilities related to such litigation are recognized when the related costs are probable and can be reasonably estimated. Management believes the Partnership has accrued for losses for which it may ultimately be responsible. It is possible that management's estimates of the outcomes will change within the next year due to uncertainties inherent in litigation and settlement negotiations. In the opinion of management, the ultimate resolution of any other litigation matters is not expected to have a material adverse effect on the Partnership's results of operations or financial condition. There can be no assurance that management's beliefs or opinions with respect to liability for potential litigation matters are accurate.

CRNF received a ten year property tax abatement from Montgomery County, Kansas in connection with the construction of the nitrogen fertilizer plant that expired on December 31, 2007. In connection with the expiration of the abatement, the county reclassified and reassessed CRNF's nitrogen fertilizer plant for property tax purposes. The reclassification and reassessment resulted in an increase in CRNF's annual property tax expense by an average of approximately $10.7 million per year for the years ended December 31, 2008 and 2009, $11.7 million for the year ended December 31, 2010, $11.4 million for the year ended December 31, 2011, and $11.3 million for the year ended December 31, 2012. CRNF protested the classification and resulting valuation for each of those years to the Kansas Court of Tax Appeals ("COTA"), followed by an appeal to the Kansas Court of Appeals. However, CRNF fully accrued and paid the property taxes the county claimed were owed for the years ended December 31, 2011, 2010, 2009 and 2008 and estimated and accrued for property tax for the

CVR Partners, LP and Subsidiaries

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(unaudited)

(14) Commitments and Contingencies (Continued)

year ended December 31, 2012. The first payment in respect to CRNF's 2012 property taxes was made in December 2012 and the second payment will be made in May 2013.

On February 25, 2013, Montgomery County and CRNF agreed to a settlement for tax years 2009 through 2012, which will lower CRNF's property taxes by about $10.5 million per year for tax years 2013 through 2016 based on current mill levy rates. In addition, the settlement provides that Montgomery County will support CRNF's application before COTA for a ten year tax exemption for the UAN expansion. Finally, the settlement provides that CRNF will continue its appeal of the 2008 reclassification and reassessment. CRNF has estimated and accrued property taxes for the first quarter of 2013 based on the lower rates resulting from the settlement.

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

CRNF is subject to various stringent federal, state, and local EHS rules and regulations. Liabilities related to EHS matters are recognized when the related costs are probable and can be reasonably estimated. Estimates of these costs are based upon currently available facts, existing technology, site-specific costs, and currently enacted laws and regulations. In reporting EHS liabilities, no offset is made for potential recoveries. All liabilities are monitored and adjusted regularly as new facts emerge or changes in law or technology occur.

CRNF owns and operates a facility utilized for the manufacture of nitrogen fertilizers. Therefore, CRNF has exposure to potential EHS liabilities related to past and present EHS conditions at this location.

From time to time, the United States Environmental Protection Agency ("EPA") has conducted inspections and issued information requests to CRNF with respect to CRNF's compliance with the Clean Air Act's "Risk Management Program" and the release reporting requirements under the Comprehensive Environmental Response, Compensation, and Liability Act and the Emergency Planning and Community Right-to-Know Act. These previous investigations have resulted in the issuance of preliminary findings regarding CRNF's compliance status. In the fourth quarter of 2010, following CRNF's reported release of ammonia from its cooling water system and the rupture of its UAN vessel (which released ammonia and other regulated substances) the EPA conducted its most recent inspection and issued an additional request for information to CRNF. The EPA has not made any formal claims against CRNF and CRNF has not accrued for any liability associated with the investigations or releases.

Management periodically reviews and, as appropriate, revises its environmental accruals. Based on current information and regulatory requirements, management believes that the accruals established for environmental expenditures are adequate.

EHS expenditures are capitalized when such expenditures are expected to result in future economic benefits. EHS capital expenditures for the three months ended March 31, 2013 and 2012 were approximately $0 and $0.2 million, respectively. These expenditures were incurred to improve the environmental compliance and efficiency of the operations. CRNF believes it is in substantial compliance with existing EHS rules and regulations. There can be no assurance that the EHS matters

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(14) Commitments and Contingencies (Continued)

described above or other EHS matters which may develop in the future will not have a material adverse effect on the business, financial co