

CVR PARTNERS, LP
Form 10-Q
October 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015

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: 001-35120

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 ☒ No ☐

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

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

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

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(Do not check if smaller reporting
company.)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

There were 73,122,997 common units outstanding at October 27, 2015.

CVR PARTNERS, LP AND SUBSIDIARIES

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For The Quarter Ended September 30, 2015

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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 September 30, 2015 (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.
capacity	Capacity is defined as the throughput a process unit is capable of sustaining, either on a calendar or stream day basis. The throughput may be expressed in terms of maximum sustainable, nameplate or economic capacity. The maximum sustainable or nameplate capacities may not be the most economical. The economic capacity is the throughput that generally provides the greatest economic benefit based on considerations such as feedstock costs, product values and downstream unit constraints.
catalyst	A substance that alters, accelerates, or instigates chemical changes, but is neither produced, consumed nor altered in the process.
Coffeyville Resources or CRLLC	Coffeyville Resources, LLC, the subsidiary of CVR Energy which directly owns our general partner and 38,920,000 common units, or approximately 53% 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 owns and operates a complex full coking medium-sour crude oil refinery with a rated capacity of 115,000 barrels per calendar day (bpcd) in Coffeyville, Kansas, a complex crude oil refinery with a rated capacity of 70,000 bpcd 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.
feedstocks	Petroleum coke and petroleum products (such as crude oil and natural gas liquids) that are processed and blended into refined products, such as gasoline, diesel fuel and jet fuel, which are produced by a refinery.

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general partner or CVR GP	CVR GP, LLC, our general partner, which is a wholly-owned subsidiary of Coffeyville Resources, LLC.
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.
netback	Netback represents net sales less freight revenue divided by product sales volume in tons. Netback is also referred to as product pricing at gate.
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.
pet coke	Petroleum coke - a coal-like substance that is produced during the oil refining process.
product pricing at gate	Product pricing at gate represents net sales less freight revenue divided by product sales volume in tons. Product pricing at gate is also referred to as netback.

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Secondary Offering	The registered public offering of 12,000,000 common units of CVR Partners, LP, by CRLLC, which closed on May 28, 2013.
throughput	The volume processed through a unit.
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

	September 30, 2015 (unaudited) (in thousands, except unit data)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$33,250	\$79,914
Accounts receivable, net of allowance for doubtful accounts of \$21 and \$34, at September 30, 2015 and December 31, 2014, respectively	7,865	7,136
Inventories	36,716	35,614
Prepaid expenses and other current assets, including \$694 and \$1,848 from affiliates at September 30, 2015 and December 31, 2014, respectively	2,785	6,914
Total current assets	80,616	129,578
Property, plant, and equipment, net of accumulated depreciation	398,686	404,934
Goodwill	40,969	40,969
Deferred financing costs, net	—	272
Other long-term assets, including \$822 and \$957 with affiliates at September 30, 2015 and December 31, 2014, respectively	3,484	3,086
Total assets	\$523,755	\$578,839
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Current portion of long-term debt	\$125,000	\$—
Accounts payable, including \$2,230 and \$2,279 due to affiliates at September 30, 2015 and December 31, 2014, respectively	18,918	12,747
Personnel accruals, including \$2,186 and \$1,129 with affiliates at September 30, 2015 and December 31, 2014, respectively	5,364	3,785
Deferred revenue	2,401	13,613
Accrued expenses and other current liabilities, including \$2,088 and \$2,094 with affiliates at September 30, 2015 and December 31, 2014, respectively	5,471	9,562
Total current liabilities	157,154	39,707
Long-term liabilities:		
Long-term debt, net of current portion	—	125,000
Other long-term liabilities	18	201
Total long-term liabilities	18	125,201
Commitments and contingencies		
Partners' capital:		
Common unitholders 73,122,997 units issued and outstanding at September 30, 2015 and December 31, 2014	366,954	414,968
General partner interest	1	1
Accumulated other comprehensive loss	(372)	(1,038)
Total partners' capital	366,583	413,931
Total liabilities and partners' capital	\$523,755	\$578,839
See accompanying notes to the condensed consolidated financial statements.		

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CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(unaudited)			
	(in thousands, except per unit data)			
Net sales	\$49,325	\$66,733	\$223,190	\$224,265
Operating costs and expenses:				
Cost of product sold (exclusive of depreciation and amortization) — Affiliates	1,147	2,232	5,149	6,805
Cost of product sold (exclusive of depreciation and amortization) — Third parties	13,354	13,202	50,545	49,773
	14,501	15,434	55,694	56,578
Direct operating expenses (exclusive of depreciation and amortization) — Affiliates	1,030	621	3,252	2,191
Direct operating expenses (exclusive of depreciation and amortization) — Third parties	32,149	25,487	79,487	75,023
	33,179	26,108	82,739	77,214
Selling, general and administrative expenses (exclusive of depreciation and amortization) — Affiliates	3,661	3,035	10,289	10,544
Selling, general and administrative expenses (exclusive of depreciation and amortization) — Third parties	2,381	928	4,859	3,343
	6,042	3,963	15,148	13,887
Depreciation and amortization	7,409	6,812	21,238	20,272
Total operating costs and expenses	61,131	52,317	174,819	167,951
Operating income (loss)	(11,806)	14,416	48,371	56,314
Other income (expense):				
Interest expense and other financing costs	(1,727)	(1,724)	(5,141)	(5,052)
Interest income	10	7	34	19
Other income, net	54	33	65	48
Total other income (expense)	(1,663)	(1,684)	(5,042)	(4,985)
Income (loss) before income tax expense	(13,469)	12,732	43,329	51,329
Income tax expense	9	13	17	27
Net income (loss)	\$(13,478)	\$12,719	\$43,312	\$51,302
Net income (loss) per common unit – basic	\$(0.18)	\$0.17	\$0.59	\$0.70
Net income (loss) per common unit – diluted	\$(0.18)	\$0.17	\$0.59	\$0.70
Weighted-average common units outstanding:				
Basic	73,123	73,115	73,123	73,114
Diluted	73,123	73,139	73,131	73,141

See accompanying notes to the condensed consolidated financial statements.

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CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30, 2015		September 30, 2014	
	(unaudited)			
	(in thousands)			
Net income (loss)	\$(13,478)	\$12,719	\$43,312	\$51,302
Other comprehensive income (loss):				
Change in fair value of interest rate swaps	(22)	36	(132)	(157)
Net loss reclassified into income on settlement of interest rate swaps	265	275	798	816
Other comprehensive income	243	311	666	659
Total comprehensive income (loss)	\$(13,235)	\$13,030	\$43,978	\$51,961

See accompanying notes to the condensed consolidated financial statements.

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CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

	Common Units		General Partner Interest	Accumulated Other Comprehensive Income/(Loss)	Total
	Issued	Amount			
	(in thousands, except unit data)		(unaudited)		
Balance at December 31, 2014	73,122,997	\$414,968	\$ 1	\$ (1,038)	\$413,931
Cash distributions to common unitholders – Affiliates	—	(48,650)	—	—	(48,650)
Cash distributions to common unitholders – Non-affiliates	—	(42,754)	—	—	(42,754)
Share-based compensation – Affiliates	—	78	—	—	78
Net income	—	43,312	—	—	43,312
Net gains (losses) on interest rate swaps	—	—	—	666	666
Balance at September 30, 2015	73,122,997	\$366,954	\$ 1	\$ (372)	\$366,583

See accompanying notes to the condensed consolidated financial statements.

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CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2015	2014
	(unaudited) (in thousands)	
Cash flows from operating activities:		
Net income	\$43,312	\$51,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,238	20,272
Allowance for doubtful accounts	(13	) (35
Amortization of deferred financing costs	721	721
(Gain) loss on disposition of fixed assets	(24	) 129
Share-based compensation – Affiliates	1,480	1,597
Share-based compensation	305	187
Change in assets and liabilities:		
Accounts receivable	(716	) 896
Inventories	(1,102	) 115
Prepaid expenses and other current assets	3,680	5,268
Other long-term assets	(169	) 279
Accounts payable	3,326	(4,126
Deferred revenue	(11,212	) 1,067
Accrued expenses and other current liabilities	(3,736	) 2,034
Other long-term liabilities	—	(63
Net cash provided by operating activities	57,090	79,643
Cash flows from investing activities:		
Capital expenditures	(12,428	) (13,499
Proceeds from sale of assets	78	91
Net cash used in investing activities	(12,350	) (13,408
Cash flows from financing activities:		
Cash distributions to common unitholders – Affiliates	(48,650	) (44,369
Cash distributions to common unitholders – Non-affiliates	(42,754	) (38,980
Redemption of common units	—	(24
Net cash used in financing activities	(91,404	) (83,373
Net decrease in cash and cash equivalents	(46,664	) (17,138
Cash and cash equivalents, beginning of period	79,914	85,142
Cash and cash equivalents, end of period	\$33,250	\$68,004
Supplemental disclosures:		
Cash paid for income taxes, net	\$35	\$33
Cash paid for interest, net of capitalized interest of \$9 and \$85 in 2015 and 2014, respectively	\$4,419	\$4,331
Non-cash investing and financing activities:		
Construction in progress additions included in accounts payable	\$3,911	\$1,873
Change in accounts payable related to construction in progress	\$2,845	\$7

See accompanying notes to the condensed consolidated financial statements.

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CVR PARTNERS, LP AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

(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 subsidiaries, "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 UAN and ammonia. 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.

Operation of Partnership

Subsequent to the closing of the Partnership's initial public offering (the "Initial Public Offering"), in April 2011 and through May 27, 2013, 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 100% of the general partner interest. As of September 30, 2015, Icahn Enterprises L.P. ("IEP") and its affiliates owned approximately 82% of the shares of CVR Energy.

On May 28, 2013, CRLLC sold 12,000,000 of the Partnership's common units to the public in a registered public offering (the "Secondary Offering"). The Partnership did not receive any of the proceeds from the sale of common units by CRLLC. Subsequent to the closing of the Secondary Offering and as of September 30, 2015, public security holders held approximately 47% of the Partnership's common units and CRLLC held approximately 53% of the Partnership's common units and 100% of the general partner interest. Subsequent to the completion of the pending mergers, which are discussed in the "Pending Mergers" section below, the Partnership estimates that CRLLC will hold approximately 34% of the Partnership's common units and 100% of 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.

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. The various rights and responsibilities of the Partnership's partners are set forth in the limited partnership agreement. The Partnership also is party to 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 13 ("Related Party Transactions") for further discussion.

Pending Mergers

On August 9, 2015, CVR Partners, including its two newly-created direct wholly-owned subsidiaries Lux Merger Sub 1 LLC ("Merger Sub 1") and Lux Merger Sub 2 LLC ("Merger Sub 2"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Rentech Nitrogen Partners, L.P., a publicly traded partnership whose common units are listed on the New York Stock Exchange under the ticker symbol "RNF" ("Rentech Nitrogen"), and Rentech Nitrogen GP, LLC ("Rentech Nitrogen GP"), pursuant to which CVR Partners will acquire Rentech Nitrogen and Rentech Nitrogen GP. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger Sub 1 will be merged with and into Rentech Nitrogen GP, with Rentech Nitrogen GP continuing as the surviving entity and a wholly-owned subsidiary of CVR Partners, and Merger Sub 2 will be merged with and into Rentech Nitrogen, with Rentech Nitrogen continuing as the surviving entity and a wholly-owned subsidiary of CVR Partners (together, the "mergers").

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CVR PARTNERS, LP AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2015

(unaudited)

Under the terms of the Merger Agreement, holders of common units representing limited partner interests in Rentech Nitrogen ("Rentech Nitrogen common units") eligible to receive consideration will receive 1.04 common units (the "unit consideration") representing limited partner interests in CVR Partners ("CVR Partners common units") and \$2.57 in cash, without interest, (the "cash consideration" and together with the unit consideration, the "merger consideration") for each Rentech Nitrogen common unit. Phantom units granted and outstanding under Rentech Nitrogen's equity plans and held by an employee who will continue in the employment of a CVR Partners-affiliated entity upon closing of the mergers will be canceled and replaced with new incentive awards of substantially equivalent value and on similar terms. Each phantom unit granted and outstanding and held by (i) an employee who will not continue in employment of a CVR Partners-affiliated entity, or (ii) a director of Rentech Nitrogen GP will, upon closing of the mergers, vest in full and be entitled to receive the merger consideration. The unit consideration is fixed, and the number of units included in the merger consideration will not be adjusted to reflect changes in the price of Rentech Nitrogen common units or CVR Partners common units. CVR Partners is expected to issue approximately 40.7 million CVR Partners common units to former Rentech Nitrogen common unitholders pursuant to the mergers.

Rentech Nitrogen owns and operates two fertilizer facilities. The facility located in East Dubuque, Illinois (the "East Dubuque facility") produces primarily ammonia and UAN using natural gas as the facility's primary feedstock. The facility located in Pasadena, Texas (the "Pasadena facility") produces ammonium sulfate, ammonium thiosulfate and sulfuric acid, using ammonia and sulfur as the facility's primary feedstocks. Rentech Nitrogen is required to sell or spin off its Pasadena facility as a condition to closing of the mergers (unless waived), and Rentech Nitrogen common unitholders may receive additional consideration for the Pasadena facility in the event such a sale or spin-off is consummated.

The completion of the mergers is subject to satisfaction or waiver of closing conditions, including (i) the adoption of the Merger Agreement by holders of a majority of the outstanding Rentech Nitrogen common units, (ii) the effectiveness of a registration statement on Form S-4, (iii) the approval for listing of the CVR Partners common units issuable as part of the merger consideration on the New York Stock Exchange, (iv) the sale or spin-off by Rentech Nitrogen of Rentech Nitrogen's Pasadena facility on terms specified in the Merger Agreement, (v) the absence of certain events of default under the indenture governing Rentech Nitrogen's 6.500% Second Lien Senior Secured Notes due 2021 and (vi) other customary conditions. On September 17, 2015, CVR Partners filed a registration statement on Form S-4 with the Securities and Exchange Commission ("SEC") to register the CVR Partners common units issuable as part of the merger consideration.

The Merger Agreement includes customary restrictions on the conduct of the Partnership's business prior to the completion of the mergers, generally requiring the Partnership to conduct its business in the ordinary course and subjecting the Partnership to a variety of specified limitations. In accordance with the terms of the Merger Agreement, beginning with the distribution for the third quarter of 2015 and until the closing of the mergers, the Partnership may not make or declare distributions in excess of available cash for distribution in respect of any quarter.

The Merger Agreement contains certain termination rights for both CVR Partners and Rentech Nitrogen and further provides that upon termination of the Merger Agreement, under certain circumstances, either party may be required to make an expense reimbursement payment of \$10.0 million, and Rentech Nitrogen may be required to pay CVR Partners a termination fee equal to \$31.2 million.

Simultaneously with the execution of the Merger Agreement, CVR Partners entered into a commitment letter (the “commitment letter”) with CRLLC, pursuant to which CRLLC has committed to, on the terms and subject to the conditions set forth in the commitment letter, make available to CVR Partners term loan financing of up to \$150.0 million, which amounts would be available solely to fund the repayment of all of the loans outstanding under Rentech Nitrogen’s existing \$50.0 million credit facility with General Electric Capital Corporation, the cash consideration and expenses associated with the mergers. The term loan facility will bear interest at a rate of three-month LIBOR plus 3.0% per annum. Calculation of interest shall be on the basis of the actual number of days elapsed over a 360-day year. Such term loan, if drawn, would have a one year term.

Further, simultaneously with the execution of the Merger Agreement, CVR Partners also entered into the voting and support agreement with Rentech, Inc. and certain of its wholly-owned subsidiaries, who collectively hold a sufficient number of Rentech Nitrogen common units to approve the proposed mergers without the affirmative vote of any other Rentech Nitrogen common unitholders, pursuant to which such holders of Rentech Nitrogen common units have agreed to, among other things, vote in favor of

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CVR PARTNERS, LP AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2015

(unaudited)

the Merger Agreement. CVR Partners common unitholders are not required to adopt the Merger Agreement or approve the mergers or the issuance of CVR Partners common units in connection with the mergers.

The Partnership incurred \$1.5 million of legal and other professional fees and other merger related expenses, which were included in selling, general and administrative expenses (exclusive of depreciation and amortization) for the three and nine months ended September 30, 2015.

See Note 12 ("Commitments and Contingencies") for discussion of litigation related to the pending mergers.

(2) Basis of Presentation

The accompanying Partnership condensed consolidated financial statements include the accounts of CVR Partners and CRNF, its wholly-owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. 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. These condensed consolidated financial statements should be read in conjunction with the December 31, 2014 audited consolidated financial statements and notes thereto included in CVR Partners' Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC as of February 20, 2015 (the "2014 Form 10-K").

The condensed consolidated financial statements include certain selling, general and administrative expenses and direct operating expenses that CVR Energy and its subsidiaries incurred on behalf of the Partnership. These related party transactions are governed by the services agreement. See Note 13 ("Related Party Transactions") for additional discussion of the services agreement and billing and allocation of certain costs.

In the opinion of the Partnership's management, the accompanying condensed consolidated financial statements and related notes reflect all adjustments (consisting only of normal recurring adjustments) that are necessary to fairly present the financial position of the Partnership as of September 30, 2015 and December 31, 2014, the results of operations and comprehensive income of the Partnership for the three and nine months ended September 30, 2015 and 2014, the cash flows of the Partnership for the nine months ended September 30, 2015 and 2014 and the changes in partners' capital for the Partnership for the nine months ended September 30, 2015.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Results of operations and cash flows for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2015 or any other interim or annual period.

The direct-expense method of accounting is used for maintenance activities, including planned major maintenance activities and other less extensive shutdowns. Maintenance costs are recognized as expense when maintenance services are performed. Planned major maintenance activities generally occur every two to three years. During the third quarter of 2015, the nitrogen fertilizer facility completed a major scheduled turnaround. Overall results were negatively impacted due to the lost production during the downtime that resulted in reduced sales and certain reduced variable expenses included in cost of product sold (exclusive of depreciation and amortization) and direct operating expenses (exclusive of depreciation and amortization). Costs of approximately \$6.6 million and 7.0 million, associated with the 2015 turnaround, are included in direct operating expenses (exclusive of depreciation and amortization) in the

Consolidated Statements of Operations for the three and nine months ended September 30, 2015, respectively.

(3) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard is effective for interim and annual periods beginning after December 15, 2016 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not

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CVR PARTNERS, LP AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2015

(unaudited)

permitted. On July 9, 2015, the FASB approved a one-year deferral of the effective date making the standard effective for interim and annual periods beginning after December 15, 2017. The FASB will continue to permit entities to adopt the standard on the original effective date if they choose. The Partnership has not yet selected a transition method and is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The new standard requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. The standard is effective for interim and annual periods beginning after December 31, 2015 and is required to be applied on a retrospective basis. Early adoption is permitted. The Partnership expects that the adoption of ASU 2015-03 will result in a reclassification of certain debt issuance costs on the Condensed Consolidated Balance Sheets.

(4) Share Based Compensation

Certain employees of CVR Partners 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. All compensation expense related to these plans for full-time employees of CVR Partners has been allocated 100% to the Partnership. For employees of 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 the allocated share-based compensation for certain plans as discussed below. Allocated expense amounts related to plans for which the Partnership is not responsible for payment 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 stock units, dividend equivalent rights, share awards and performance awards (including performance share units, performance units and performance based restricted stock). As of September 30, 2015, only grants of restricted stock units under the CVR Energy LTIP remain outstanding. Individuals who are eligible to receive awards and grants under the CVR Energy LTIP include CVR Energy's or its subsidiaries' (including the Partnership) employees, officers, consultants and directors.

Restricted Stock Units

Through the CVR Energy LTIP, shares of restricted common stock were previously granted to employees of CVR Energy. These restricted shares are generally graded-vesting awards, which vest over a three-year period. Compensation expense is recognized on a straight-line basis over the vesting period of the respective tranche of the award. The IEP acquisition of CVR Energy and related Transaction Agreement, dated April 18, 2012, between CVR Energy and an affiliate of IEP (the "Transaction Agreement") triggered a modification to outstanding awards under the CVR Energy LTIP. Pursuant to the Transaction Agreement, restricted shares scheduled to vest in 2013, 2014 and 2015 were converted to restricted stock units whereby the awards would be settled in cash upon vesting in an amount equal to the lesser of the offer price of \$30.00 per share or the fair market value as determined at the most recent valuation date of December 31 of each year. The awards are remeasured at each subsequent reporting date until they vest.

In 2012 and 2013, restricted stock units and dividend equivalent rights were granted to certain employees of CVR Energy and its subsidiaries. The awards are expected to vest over three years, with one-third of the award vesting each year. Each restricted stock unit and dividend equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the fair market value of one share of CVR Energy's common stock, plus (ii) 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.

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(unaudited)

Assuming the allocation of costs from CVR Energy remains consistent with the allocation percentages in place at September 30, 2015, the amount of total unrecognized compensation cost related to restricted stock units and associated dividend equivalent rights was nominal and will be recognized over a weighted-average period of approximately 0.3 years. Inclusion of a vesting table would not be meaningful due to changes in allocation percentages that may occur from time to time. The unrecognized compensation expense has been determined by the number of restricted stock units and associated dividend equivalent rights and respective allocation percentage for individuals for whom, as of September 30, 2015, compensation expense has been allocated to the Partnership. Compensation expense recorded for the three months ended September 30, 2015 and 2014, related to the awards, was approximately \$34,000 and \$0.1 million, respectively. Compensation expense recorded for the nine months ended September 30, 2015 and 2014, related to the awards, was approximately \$0.1 million and \$0.2 million, respectively. The Partnership is not responsible for the payment of CVR Energy restricted stock units and associated dividend equivalent rights, and accordingly, the expenses recorded have been reflected as increases to partners' capital.

Performance Unit Awards

Mr. Lipinski, CVR Energy's Chief Executive Officer and President, had performance unit awards that were fully vested as of December 31, 2014 and reimbursed as of March 31, 2015 with no remaining performance units outstanding. Total compensation expense recorded for the three and nine months ended September 30, 2014 related to the performance unit awards was \$0 and \$0.7 million, respectively.

Incentive Unit Awards – CVR Energy

In 2013, 2014 and 2015, CVR Energy granted awards of incentive units and distribution equivalent rights to certain employees of CRLLC, CVR Energy and the Partnership's general partner who provide shared services to CVR Energy and its subsidiaries (including the Partnership). The awards are generally graded-vesting awards, which are expected to vest over three years, with one-third of the award vesting each year. Compensation expense is recognized on a straight-line basis over the vesting period of the respective tranche of the award. Each incentive unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average fair market value of one common unit of CVR Refining, LP ("CVR Refining") in accordance with the award agreement, plus (ii) the per unit cash value of all distributions declared and paid by CVR Refining from the grant date to and including the vesting date. The awards, which are liability-classified, are 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 September 30, 2015, there was approximately \$0.9 million of total unrecognized compensation cost related to the incentive units and associated distribution equivalent rights to be recognized over a weighted-average period of approximately 1.1 years. Inclusion of a vesting table would not be meaningful due to changes in allocation percentages that may occur from time to time. The unrecognized compensation expense has been determined by the number of incentive units and respective allocation percentage for individuals for whom, as of September 30, 2015, compensation expense has been allocated to the Partnership. Compensation expense recorded for the three months ended September 30, 2015 and 2014 related to the awards was approximately \$0.2 million and \$0.1 million, respectively. Compensation expense recorded for the nine months ended September 30, 2015 and 2014 related to the awards was approximately \$0.6 million and \$0.5 million, respectively. The Partnership will be responsible for reimbursing CVR Energy for its allocated portion of the awards.

As of September 30, 2015 and December 31, 2014, the Partnership had a liability of \$0.8 million and \$0.2 million, respectively, for its allocated portion of non-vested incentive units and associated distribution equivalent rights, which is recorded in accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheets.

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Long-Term Incentive Plan – CVR Partners