CVR PARTNERS, LP
Form 10-Q
November 06, 2012

Table of Contents

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 September 30, 2012

OR

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

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

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 o Non-accelerated filer ý Smaller reporting company o

(Do not check if a
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 o No ý

There were 73,046,498 common units outstanding at November 1, 2012.

Table of Contents

CVR Partners, LP and Subsidiary

INDEX TO QUARTERLY REPORT ON FORM 10-Q
For The Quarter Ended September 30, 2012

Table of Contents

GLOSSARY OF SELECTED TERMS

The following are definitions of certain terms used in this Quarterly Report on Form 10-Q.

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 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.

ethanol A clear, colorless, flammable oxygenated hydrocarbon. Ethanol is typically produced chemically from ethylene, or biologically from fermentation of various sugars from carbohydrates found in agricultural crops and cellulosic residues from crops or wood. It is used in the United States as a gasoline octane enhancer and oxygenate.

farm belt Refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.

feedstocks Petroleum products, such as crude oil and natural gas liquids, that are processed and blended into refined products, such as gasoline, diesel fuel and jet fuel, which are produced by a refinery.

general partner CVR GP, LLC, our general partner, which is a wholly-owned subsidiary of Coffeyville Resources.

Initial Public Offering 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 unit.

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.

Table of Contents

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.

spot market A market in which commodities are bought and sold for cash and delivered immediately.

syngas Synthesized gas a mixture of gases (largely carbon monoxide and hydrogen) that results from gasifying carbonaceous feedstock such as pet coke.

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.

wheat belt The primary wheat producing region of the United States, which includes Oklahoma, Kansas, North Dakota, South Dakota and Texas.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. *FINANCIAL STATEMENTS*

CVR PARTNERS, LP AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (unaudited)	December 31, 2011
	(dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 180,291	$ 236,975
Accounts receivable, net of allowance for doubtful accounts of $91 and $76, respectively	7,937	9,322
Inventories	29,798	23,255
Prepaid expenses and other current assets including $337 and $572 from affiliates at September 30, 2012 and December 31, 2011, respectively	2,438	2,311
Total current assets	220,464	271,863
Property, plant, and equipment, net of accumulated depreciation	387,309	341,495
Intangible assets, net	32	36
Goodwill	40,969	40,969
Deferred financing cost, net	2,443	3,164
Other long-term assets, including $1,360 and $1,495 with affiliates at September 30, 2012 and December 31, 2011, respectively	2,025	1,782
Total assets	$ 653,242	$ 659,309
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable, including $3,638 and $2,064 due to affiliates at September 30, 2012 and December 31, 2011, respectively	$ 32,429	$ 15,869
Personnel accruals, including $1,450 and $812 with affiliates at September 30, 2012 and December 31, 2011, respectively	4,021	2,744
Deferred revenue	10,372	9,019
Accrued expenses and other current liabilities, including $508 and $549 with affiliates at September 30, 2012 and December 31, 2011, respectively	12,774	14,822
Total current liabilities	59,596	42,454
Long-term liabilities:		
Long-term debt, net of current portion	125,000	125,000
Other long-term liabilities, including $473 and $850 with affiliates at September 30, 2012 and December 31, 2011, respectively	2,714	2,366
Total long-term liabilities	127,714	127,366
Commitments and contingencies		
Partners' capital:		

Common unitholders, 73,046,498 and 73,030,936 units issued and outstanding at September 30, 2012 and December 31, 2011, respectively		468,945		491,876
General partner's interest		1		1
Accumulated other comprehensive loss		(3,014)		(2,388)
Total partners' capital		465,932		489,489
Total liabilities and partners' capital	$	653,242	$	659,309

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CVR Partners, LP and Subsidiary

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
	(unaudited)			
	(in thousands, except per unit data)			
Net sales	$ 75,013	$ 77,203	$ 234,720	$ 215,253
Operating costs and expenses:				
Cost of product sold (exclusive of depreciation and amortization) Affiliates	3,229	3,642	8,751	7,977
Cost of product sold (exclusive of depreciation and amortization) Third parties	8,068	7,259	25,869	20,161
	11,297	10,901	34,620	28,138
Direct operating expenses (exclusive of depreciation and amortization) Affiliates	394	165	1,223	1,013
Direct operating expenses (exclusive of depreciation and amortization) Third parties	20,669	19,918	65,201	64,360
	21,063	20,083	66,424	65,373
Insurance recovery business interruption		(490)		(3,360)
Selling, general and administrative expenses (exclusive of depreciation and amortization) Affiliates	3,863	3,438	12,900	13,085
Selling, general and administrative expenses (exclusive of depreciation and amortization) Third parties	1,213	1,094	5,130	4,443
	5,076	4,532	18,030	17,528
Depreciation and amortization	5,230	4,663	15,826	13,948
Total operating costs and expenses	42,666	39,689	134,900	121,627
Operating income	32,347	37,514	99,820	93,626
Other income (expense):				
Interest expense and other financing costs	(850)	(1,378)	(3,073)	(2,616)
Interest income	60	29	158	58
Other income, net	13	132	47	189
Total other income (expense)	(777)	(1,217)	(2,868)	(2,369)
Income before income tax expense	31,570	36,297	96,952	91,257
Income tax expense	13	12	63	27
Net income	$ 31,557	$ 36,285	$ 96,889	$ 91,230
Net income subsequent to initial public offering (April 13, 2011 through September 30, 2011)		$ 36,285		$ 67,134
Net income per common unit basic (1)	$ 0.43	$ 0.50	$ 1.32	$ 0.92
Net income per common unit diluted (1)	$ 0.43	$ 0.50	$ 1.32	$ 0.92
Weighted-average common units outstanding:				
Basic	73,045	73,003	73,037	73,002
Diluted	73,191	73,083	73,193	73,065

(1) The Partnership operated under a different capital structure prior to the closing of its Initial Public Offering on April 13, 2011. As a result, the per unit data for the three and nine months ended September 30, 2011 is calculated since the closing of the offering on April 13, 2011. See Note 8 to the condensed consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
	(unaudited) (in thousands)			
Net income	$ 31,557	$ 36,285	$ 96,889	$ 91,230
Other comprehensive income (loss):				
Change in fair value of interest rate swap	(370)	(2,554)	(1,331)	(2,554)
Reclass of gain/loss to income on settlement of interest rate swap	240	142	705	142
Other comprehensive income (loss)	(130)	(2,412)	(626)	(2,412)
Total comprehensive income	$ 31,427	$ 33,873	$ 96,263	$ 88,818

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2012	2011
	(unaudited) (in thousands)	
Cash flows from operating activities:		
Net income	$ 96,889	$ 91,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,826	13,948
Allowance for doubtful accounts	(15)	21
Amortization of deferred financing costs	721	458
Loss on disposition of fixed assets	7	631
Share-based compensation Affiliates	4,886	6,420
Share-based compensation	375	
Change in assets and liabilities:		
Accounts receivable	1,400	(2,582)
Inventories	(6,534)	(5,969)
Insurance receivable	(1,026)	(5,880)
Business interruption insurance proceeds		3,360
Prepaid expenses and other current assets	(133)	(1,569)
Other long-term assets	(243)	2,812
Accounts payable	7,728	(4,726)
Deferred revenue	1,353	1,890
Accrued expenses and other current liabilities	3,804	7,184
Other long-term liabilities	(248)	669
Net cash provided by operating activities	124,790	107,897
Cash flows from investing activities:		
Capital expenditures	(57,419)	(10,539)
Insurance proceeds from UAN reactor rupture	1,026	2,745
Net cash used in investing activities	(56,393)	(7,794)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		125,000
Payment of financing costs		(4,825)
Distributions to affiliates	(87,124)	(297,401)
Cash distribution to public unitholders non-affiliates	(37,839)	(8,988)
Purchase of managing general partner incentive distribution rights		(26,000)
Proceeds from issuances of common units, net of offering costs		324,880
Redemption of common units	(118)	
Net cash provided by (used in) financing activities	(125,081)	112,666
Net increase (decrease) in cash and cash equivalents	(56,684)	212,769
Cash and cash equivalents, beginning of period	236,975	42,745
Cash and cash equivalents, end of period	$ 180,291	$ 255,514

Supplemental disclosures:

Cash paid for income taxes	$	35	$	20
Cash paid for interest, net of capitalized interest of $2,147 and $946 in 2012 and 2011, respectively	$	2,684	$	1,630
Non-cash investing and financing activities:				
Accrual of construction in progress additions	$	4,209	$	2,116

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

	Common Units Issued	Amount	General Partner Interest	Accumulated Other Comprehensive Income/(Loss)	Total
		(unaudited)			
		(in thousands, except unit data)			
Balance at December 31, 2011	73,030,936	$ 491,876	$ 1	$ (2,388)	$ 489,489
Cash distributions to Affiliates		(87,124)			(87,124)
Cash distributions to Public Unitholders		(37,839)			(37,839)
Share-based compensation Affiliates		4,886			4,886
Share-based compensation		375			375
Issuance of units under LTIP Affiliates	21,159				
Redemption of common units	(5,597)	(118)			(118)
Net income		96,889			96,889
Net gains (losses) on interest rate swaps				(626)	(626)
Balance at September 30, 2012	73,046,498	$ 468,945	$ 1	$ (3,014)	$ 465,932

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(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"), previously a wholly-owned subsidiary of CVR Energy. 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.

In October 2007, CVR Energy, through its wholly-owned subsidiary, Coffeyville Resources, LLC ("CRLLC"), transferred CRNF, which operated CRLLC's nitrogen fertilizer business, to the Partnership. The Partnership became the sole member of CRNF. In consideration for CRLLC transferring its nitrogen fertilizer business to the Partnership, (1) CRLLC directly acquired a 0.1% limited partner interest in the Partnership, (2) a wholly-owned subsidiary of CRLLC acquired a 99.9% general partner interest in the Partnership, and (3) CVR GP, LLC ("CVR GP"), then owned by CRLLC, acquired a managing general partner interest and incentive distribution rights ("IDRs") of the Partnership. Immediately prior to CVR Energy's initial public offering, CVR Energy sold the managing general partner interest (together with the IDRs) to Coffeyville Acquisition III LLC ("CALLC III"), an entity owned by funds affiliated with Goldman, Sachs & Co. (the "Goldman Sachs Funds") and Kelso & Company, L.P. (the "Kelso Funds") and members of CVR Energy's management team, for its fair market value on the date of sale. CVR Energy initially indirectly owned all of the interests in the Partnership (other than the managing general partner interest and the IDRs) and initially was entitled to all cash distributed by the Partnership.

Initial Public Offering of CVR Partners, LP

On April 13, 2011, CVR Partners completed its initial public offering (the "Initial Public Offering") of 22,080,000 common units priced at $16.00 per unit (such amount includes common units issued pursuant to the exercise of the underwriters' over-allotment option). The common units trade on the New York Stock Exchange under the symbol "UAN."

The net proceeds to CVR Partners from the Initial Public Offering (including the net proceeds from the exercise of the underwriters' over-allotment option) were approximately $324.2 million, after deducting underwriting discounts and commissions and offering expenses. The net proceeds from the Initial Public Offering were used as follows: approximately $18.4 million was used to make a distribution to CRLLC in satisfaction of the Partnership's obligation to reimburse CRLLC for certain capital expenditures CRLLC made with respect to the nitrogen fertilizer business prior to October 24, 2007; approximately $117.1 million was used to make a special distribution to CRLLC in order to, among other things, fund the offer to purchase CRLLC's senior secured notes required upon consummation of the Initial Public Offering; approximately $26.0 million was used to purchase (and

CVR PARTNERS, LP AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

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

subsequently extinguish) the IDRs owned by the general partner; approximately $4.8 million was used to pay financing fees and associated legal and professional fees resulting from the new credit facility and the balance was used for or will be used for general partnership purposes, including approximately $100.0 million to fund the continuation of the UAN expansion at the nitrogen fertilizer plant.

Immediately prior to the closing of the Initial Public Offering, the Partnership distributed approximately $54.0 million of cash on hand to CRLLC. In connection with the Initial Public Offering, the Partnership's special LP units were converted into common units, the Partnership's special GP units were converted into common units, and the Partnership's special general partner was merged with and into CRLLC, with CRLLC continuing as the surviving entity. Additionally, in conjunction with CVR GP selling its IDRs to the Partnership, which were then extinguished, CALLC III sold CVR GP to CRLLC for a nominal amount.

Shelf Registration Statement

On August 29, 2012, the Partnership's registration statement on Form S-3 (initially filed on August 17, 2012), was declared effective by the Securities and Exchange Commission (the "SEC"), enabling CRLLC to offer and sell from time to time, in one or more public offerings or direct placements, up to 50,920,000 common units.

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 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 September 30, 2012.

Pursuant to the Transaction Agreement, for a period of sixty days CVR Energy solicited proposals or offers from third parties to acquire CVR Energy. The sixty day period began on May 24, 2012 and ended on July 23, 2012, without any qualifying offers.

CVR PARTNERS, LP AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

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

Operation of Partnership

Subsequent to the closing of the Initial Public Offering, common units held by public security holders represented approximately 30% of the Partnership's outstanding common units and CRLLC held approximating 70% of the Partnership's outstanding common units.

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. In October 2007, the Partnership's partners 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 16 ("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. Additionally, in connection with the Initial Public Offering, the Partnership and CRNF were released from their obligations as guarantors under CRLLC's asset-backed revolving credit facility ("ABL credit facility") and the indentures which govern CRLLC's senior secured notes, as described further in Note 17 ("Commitments and Contingencies") of the Partnership's Annual Report on Form 10-K for the year ended December 31, 2011.

(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 16 ("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 September 30, 2012 and December 31, 2011, the results of operations and comprehensive income of the Partnership for the three and nine months ended September 30, 2012 and 2011, the cash flows of the Partnership for the nine months ended

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

(2) Basis of Presentation (Continued)

September 30, 2012 and 2011 and the changes in partners' capital for the Partnership for the nine month period ended September 30, 2012.

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, 2012 or any other interim period.

The Partnership operated under a different capital structure prior to the closing of its Initial Public Offering on April 13, 2011. Per unit data for the nine months ended September 30, 2011 is calculated since the closing of the Partnership's offering on April 13, 2011.

The Partnership has evaluated subsequent events that would require an adjustment to the Partnership's condensed consolidated financial statements or disclosure in the notes to the condensed consolidated financial statements through the date of issuance of the condensed consolidated financial statements. See Note 18 ("Subsequent Events").

(3) Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *"Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,"* ("ASU 2011-04"). ASU 2011-04 changed the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 also expanded the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance was to be applied prospectively. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Partnership adopted this standard on January 1, 2012. The adoption of this standard did not impact the condensed consolidated financial statement footnote disclosures.

In June 2011, the FASB issued ASU No. 2011-05, "*Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income*," ("ASU 2011-05") which amended former comprehensive income guidance. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Partnership must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 was effective for interim and annual periods beginning after December 15, 2011 and was to be applied retrospectively. In December 2011, FASB deferred the effective date of the changes in ASU 2011-05 that related to the presentation of reclassification adjustments to again consider whether to present reclassifications out of accumulated other comprehensive income on the face of the financials. This deferral does not impact the other requirements as of ASU 2011-05. The Partnership adopted this standard on January 1, 2012. The adoption of this standard expanded the Partnership's condensed consolidated financial statements and footnote disclosures.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

(3) Recent Accounting Pronouncements (Continued)

In December 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-11 "Balance Sheet (Topic 210): *Disclosures about Offsetting Assets and Liabilities("ASU 2011-11")*, which required new disclosure standards to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. ASU 2011-11 will be effective for annual periods beginning January 1, 2013 and interim periods within those annual periods. The Partnership believes this standard will expand its 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 are participants 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.

Prior to its initial public offering, CVR Energy was owned by Coffeyville Acquisition LLC ("CALLC"), which was principally owned by the Goldman Sachs Funds, the Kelso Funds and members of CVR Energy's management team. In connection with CVR Energy's initial public offering, CALLC was split into two entities: CALLC and Coffeyville Acquisition II LLC ("CALLC II"). In connection with this split, management's equity interest in CALLC, including both their common units and non-voting override units, were split so that half of management's equity interest was in CALLC and half was in CALLC II.

In February 2011, CALLC and CALLC II sold into the public market 11,759,023 shares and 15,113,254 shares, respectively, of CVR Energy's common stock, pursuant to a registered public offering. In May 2011, CALLC sold into the public market 7,988,179 shares of CVR Energy, pursuant to a registered public offering.

As a result, CALLC and CALLC II ceased to be stockholders of CVR Energy. Subsequent to CALLC's and CALLC II's divestiture of ownership interest in CVR Energy, no additional share-based compensation expense was incurred with respect to override units and phantom units after each respective divestiture date. The final fair values of the override units of CALLC and CALLC II were derived based upon the values resulting from the proceeds of each entity's respective divestiture of its ownership in CVR Energy. These values were utilized to determine the related compensation expense for the unvested units.

The final fair value of the CALLC III override units was derived based upon the value resulting from the proceeds received by the managing GP upon the purchase of the IDR's by the Partnership.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

(4) Share-Based Compensation (Continued)

These proceeds were subsequently distributed to the owners of CALLC III which included the override unitholders. This value was utilized to determine the related compensation expense for the unvested units. Subsequent to June 30, 2011, no additional share-based compensation was incurred with respect to override units of CALLC III due to the complete distribution of the proceeds received by the managing GP prior to July 1, 2011. For the nine months ended September 30, 2011, the estimated fair value of the override units of CALLC III was determined using a probability-weighted expected return method which utilized CALLC III's cash flow projections, which were considered representative of the nature of interests held by CALLC III in the Partnership.

The following table provides key information for the share-based compensation plans related to the override units of CALLC, CALLC II, and CALLC III.

Award Type	Benchmark Value (per Unit)	Original Awards Issued	Grant Date	Compensation Expense for the Nine Months Ended September 30, 2011
				(in thousands)
Override Value Units(a)	$ 11.31	1,839,265	June 2005	$ 1,495
Override Value Units(b)	$ 34.72	144,966	December 2006	225
Override Units(c)	$ 10.00	642,219	February 2008	143
			Total	$ 1,863

Due to the divestiture of all ownership in CVR Energy by CALLC and CALLC II and due to the purchase of the IDRs from CVR GP and the distribution of all proceeds to CALLC III, there was no associated unrecognized compensation expense as of September 30, 2012.

Phantom Unit Plans

CVR Energy, through CRLLC, has two Phantom Unit Appreciation Plans (the "Phantom Unit Plans") whereby directors, employees and service providers were awarded phantom points at the discretion of the board of directors or the compensation committee. Holders of service phantom points had rights to receive distributions when holders of override operating units received distributions. Holders of performance phantom points had rights to receive distributions when holders of override value units in CALLC and CALLC II received distributions. There was no compensation expense for the three months ended September 30, 2012 and 2011 related to the Phantom Unit Plans. Compensation expense for the nine months ended September 30, 2012 and 2011 related to the Phantom Unit Plans was approximately $0 and $2.0 million, respectively. Due to the divestiture of all ownership of CVR Energy by CALLC and CALLC II in 2011, there was no unrecognized compensation expense associated with the Phantom Unit Plans at September 30, 2012.

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 September 30, 2012, only restricted shares of CVR Energy

CVR PARTNERS, LP AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

(4) Share-Based Compensation (Continued)

common stock and stock options had been granted under the CVR Energy LTIP. 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.

Restricted Shares

Through the CVR Energy LTIP, shares of restricted common stock have been granted to employees of CVR Energy and CRNF. Restricted shares, when granted, are 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 shares generally vest over a three-year period.

The Transaction Agreement, as discussed in Note 1, triggered a modification to the treatment of outstanding restricted stock awarded under the CVR Energy LTIP. Pursuant to the Transaction Agreement, all restricted stock awards that vest in 2012 will vest in accordance with the current vesting terms, but upon vesting will be converted to a cash award in which the recipient will receive the offer price of $30 per share in cash plus one CCP. For all such awards that vest in accordance with their terms in 2013, 2014 and 2015, the holders of the awards will receive a cash award equal to the lesser of the offer price or the appraised value of the shares at the time of vesting. As a result of the modification, additional share-based compensation of $1.9 million was incurred to revalue the unvested shares to the fair value upon the date of modification. For awards vesting subsequent to 2012, the awards will be remeasured at each subsequent reporting date until they vest.

Assuming the allocation of costs from CVR Energy remains consistent with the allocation percentages in place at September 30, 2012, 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 two 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 September 30, 2012, compensation expense has been allocated to the Partnership.

Compensation expense recorded for the three months ended September 30, 2012 and 2011, related to the restricted shares, was approximately $0.6 million and $0.4 million, respectively. Compensation expense recorded for the nine months ended September 30, 2012 and 2011, related to the restricted shares, was approximately $3.6 million and $1.7 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 CVR Partners', its subsidiaries' and its parent's employees, officers, consultants and directors. The CVR Partners LTIP provides for the grant of options, unit appreciation 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.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

(4) Share-Based Compensation (Continued)

Through the CVR Partners LTIP, phantom and common units have been awarded to employees of the Partnership and the general partner. Phantom unit awards made to employees 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 made to employees of CRNF are valued on the grant date and amortized over the vesting period. These units generally vest over a three year period. As of September 30, 2012, there was approximately $1.8 million of total unrecognized compensation cost related to the units to be recognized over a weighted-average period of two years. Compensation expense recorded for the three months ended September 30, 2012 and 2011 related to the units was approximately $0.6 million and $0.5 million, respectively. Compensation expense recorded for the nine months ended September 30, 2012 and 2011 related to the units was approximately $1.7 million and $0.8 million, respectively.

A summary of the CVR Partners LTIP activity during the nine months ended September 30, 2012 is presented below:

	Units	Weighted-Average Grant Date Fair Value
	(in thousands)	
Non-vested at January 1, 2012	164,571	$ 22.99
Granted		
Vested	(21,159)	20.09
Forfeited		
Non-vested at September 30, 2012	143,412	$ 23.42

(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.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2012

(unaudited)

(5) Inventories (Continued)

Inventories consisted of the following:

	September 30, 2012	December 31, 2011
	(in thousands)	
Finished goods	$ 6,947	$ 6,130
Raw materials and precious metals	4,973	4,578
Parts and supplies	17,878	12,547
	$ 29,798	$ 23,255

(6) Property, Plant, and Equipment

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

	September 30, 2012	December 31, 2011
	(in thousands)	
Land and improvements	$ 2,611	$ 2,563
Buildings and improvements	1,223	815
Machinery and equipment	399,732	397,433
Automotive equipment	356	391
Furniture and fixtures	262	261
Railcars	2,496	2,496
Construction in progress	110,273	51,410
	$ 516,953	$ 455,369
Accumulated depreciation	129,644	