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)

þ 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	56-2677689
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2277 Plaza Drive, Suite 500	
Sugar Land, Texas	77479
(Address of principal executive offices)	(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 þ 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 þ 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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

(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 o No þ

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

CVR PARTNERS, LP AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
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.

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.

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)	December 31, 2014
	(in thousands, except unit data)	
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,		Nine Months Ended September 30,	
	2015	2014	2015	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			
	(unaudited)				
	(in thousands, except unit data)				
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.

(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”).

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 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 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.

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.

Long-Term Incentive Plan – CVR Partners

The Partnership has a long-term incentive plan ("CVR Partners LTIP") that provides for the grant of options, unit appreciation rights, distribution equivalent rights, restricted units, phantom units and other unit-based awards. Individuals who are eligible to receive awards pursuant to the CVR Partners LTIP include (i) employees of the Partnership and its subsidiaries, (ii) employees of the general partner, (iii) members of the board of directors of the general partner, and (iv) CVR Partners' parent's employees, consultants and directors.

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 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 employees of the general partner vest over a three year period. The maximum number of common units issuable under the CVR Partners LTIP is 5,000,000. As of September 30, 2015, there were 4,820,215 common units available for issuance under the CVR Partners LTIP. As substantially all phantom unit awards discussed below are cash settled awards, they do not reduce the number of common units outstanding.

Certain Units and Phantom Units

In 2013 and during 2014, awards of phantom units and distribution equivalent rights were granted to certain employees of the Partnership and its subsidiaries' employees and the employees of the general partner. 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 phantom 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 unit of the Partnership's common units in accordance with the award agreement, plus (ii) the per unit cash value of all distributions declared and paid by the Partnership 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.

A summary of the phantom unit activity during the nine months ended September 30, 2015 is presented below:

	Phantom Units		Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2015	243,946		$ 11.07
Granted	—		—
Vested	—		—
Forfeited	(2,388	)	10.99
Non-vested at September 30, 2015	241,558		$ 11.08

Unrecognized compensation expense associated with the unvested phantom units at September 30, 2015 was approximately $1.3 million and is expected to be recognized over a weighted average period of 1.1 years. Compensation expense recorded for the three months ended September 30, 2015 and 2014 related to the awards under the CVR Partners LTIP was approximately $0.1 million and $(0.2) million, respectively. Compensation expense recorded for the nine months ended September 30, 2015 and 2014 related to the awards under the CVR Partners LTIP was approximately $1.1 million and $0.4 million, respectively. As of September 30, 2015 and December 31, 2014 the

Partnership had a liability of $1.3 million and $0.2 million, respectively, for cash settled non-vested phantom unit awards and associated distribution equivalent rights, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

Performance-Based Phantom Unit Award

In May 2014, the Partnership entered into a Phantom Unit Agreement with Mr. Pytosh, the Chief Executive Officer and President of the general partner, that included performance-based phantom units and distribution equivalent rights. Compensation cost for these awards is being recognized over the performance cycles of May 1, 2014 to December 31, 2014, January 1, 2015 to December 31, 2015 and January 1, 2016 to December 31, 2016, as the services are provided. Each phantom unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average closing price of the Partnership's common units in accordance with the agreement, multiplied by a performance factor that is based upon the level of the Partnership's production of UAN, and (ii) the per unit cash value of all distributions declared and paid by the Partnership from the grant date to and including the vesting date. Assuming the allocation of costs from CVR Energy remains consistent with the allocation percentages in place at September 30, 2015, unrecognized compensation expense associated with the unvested units at September 30, 2015 was approximately $0.1 million and is expected to be recognized over a weighted average period of 0.8 years. Compensation expense recorded for the three months ended September 30, 2015 and 2014 related to the awards was approximately $1,000 and $(9,000), respectively. Compensation expense recorded for the nine months ended September 30, 2015 and 2014 related to the awards was approximately $40,000 and $37,000, respectively. The Partnership will be reimbursed by CVR Energy and CVR Refining for the portion of the award attributable to time Mr. Pytosh spends working on matters for those companies. As of September 30, 2015 and December 31, 2014, the Partnership had a nominal liability for the non-vested phantom unit award and associated distribution equivalent rights, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

(5) Inventories

Inventories consisted of the following:

	September 30, 2015	December 31, 2014
	(in thousands)	
Finished goods	$6,938	$12,393
Raw materials and precious metals	10,414	9,333
Parts and supplies	19,364	13,888
	$36,716	$35,614

(6) Property, Plant and Equipment

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

	September 30, 2015	December 31, 2014
	(in thousands)	
Land and improvements	$5,441	$5,263
Buildings and improvements	2,835	2,266
Machinery and equipment	570,759	559,210
Automotive equipment	448	497
Furniture and fixtures	916	882
Railcars	14,850	14,524
Construction in progress	5,547	6,515
	$600,796	$589,157
Less: Accumulated depreciation	202,110	184,223
Total property, plant and equipment, net	$398,686	$404,934

Capitalized interest recognized as a reduction of interest expense for the three months ended September 30, 2015 and 2014 totaled approximately $9,000 and $6,000, respectively. For the nine months ended September 30, 2015 and 2014, capitalized interest recognized as a reduction of interest expense totaled approximately $9,000 and $85,000, respectively.

Direct operating expenses excluded depreciation and amortization of approximately $7.3 million and $6.7 million for the three months ended September 30, 2015 and 2014, respectively, and approximately $20.8 million and $20.0 million for the nine months ended September 30, 2015 and 2014, respectively.

Cost of product sold expenses excluded depreciation and amortization of approximately $0.1 million and $0.1 million for the three months ended September 30, 2015 and 2014, respectively, and approximately $0.4 million and $0.3 million for the nine months ended September 30, 2015 and 2014, respectively.

Depreciation and amortization excluded from selling, general and administrative expenses was nominal for the three and nine months ended September 30, 2015 and 2014.

(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 September 30, 2015, the Partnership had a total of 73,122,997 common units issued and outstanding, of which 38,920,000 common units were owned by CRLLC, representing approximately 53% of the total Partnership units outstanding.

The board of directors of the Partnership's general partner has 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 60 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 begins with Adjusted EBITDA reduced for cash needed for (i) net cash interest expense (excluding capitalized interest) and debt service and other contractual obligations; (ii) maintenance capital expenditures; and (iii) to the extent applicable, major scheduled turnaround expenses, reserves for future operating or capital needs that the board of directors of the general partner deemed necessary or appropriate, and expenses associated with the Rentech Nitrogen mergers, if any. Available cash for distribution may be increased by the release of previously established cash reserves, if any, at the discretion of the board of directors of the general partner. Actual distributions are set by the board of directors of the general partner, subject to the limitations in accordance with the Merger Agreement as discussed in the "Pending Mergers" section of Note 1 ("Formation of the Partnership, Organization and Nature of Business"). The board of directors of the general partner may modify the cash distribution policy at any time, and the partnership agreement does not require the board of directors of the general partner to make distributions at all.

The following is a summary of cash distributions paid to the Partnership's unitholders during 2015 for the respective quarters to which the distributions relate:

	December 31, 2014	March 31, 2015	June 30, 2015	Total Cash Distributions Paid in 2015

	($ in millions, expect per common unit amounts)			
Amount paid to CRLLC	$16.0	$17.5	$15.2	$48.7
Amounts paid to public unitholders	14.0	15.4	13.3	42.7
Total amount paid	$30.0	$32.9	$28.5	$91.4
Per common unit	$0.41	$0.45	$0.39	$1.25
Common units outstanding (in thousands)	73,123	73,123	73,123	

(8) Net Income (loss) per Common Unit

The Partnership's net income (loss) is allocated wholly to the common units, as the general partner does not have an economic interest. Basic and diluted net income (loss) 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 certain 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.

(9) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

	September 30, 2015	December 31, 2014
	(in thousands)	
Property taxes	$1,786	$1,376
Current interest rate swap liabilities	372	855
Accrued interest	458	458
Railcar maintenance accruals	168	2,827
Other accrued expenses and liabilities (1)	2,687	4,046
	$5,471	$9,562

(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 and the services agreement. Refer to Note 13 ("Related Party Transactions") for additional discussion.

(10) Credit Facility

The Partnership's 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 September 30, 2015 and December 31, 2014. There is no scheduled amortization. The credit facility matures in April 2016; therefore, the principal portion of the term loan is presented in current portion of long-term debt on the Condensed Consolidated Balance Sheet as of September 30, 2015. The Partnership is considering capital structure and refinancing options associated with the credit facility maturity.

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, incurrence of liens, disposal of assets, making restricted payments, making investments or acquisitions, entry into sale-leaseback transactions and entry 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 September 30, 2015, CVR Partners was in compliance with the covenants contained in the credit facility.

(11) Interest Rate Swap Agreements

CRNF has 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, as discussed further in Note 10 ("Credit Facility"). The aggregate notional amount covered under these agreements, which commenced on August 12, 2011 and expire on February 12, 2016, totals $62.5 million (split evenly between the two agreements). 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 are 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 governed by the credit facility. At September 30, 2015, the effective rate of the term loan facility, net of impact of the interest rate swap agreements, 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 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. Any ineffective portion of the gain or loss will be recognized immediately in interest expense. The realized loss on the interest rate swap reclassified from AOCI into interest expense and other financing costs on the Condensed Consolidated Statements of Operations was $0.3 million and $0.3 million for the three months ended September 30, 2015 and 2014, respectively, and $0.8 million and $0.8 million for the nine months ended September 30, 2015 and 2014, respectively.

The interest rate swap agreements held by the Partnership also provide for the right to offset. However, as the interest rate swaps are in a liability position, there are no amounts offset in the Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014. See Note 14 ("Fair Value Measurements") for discussion of the fair value of the interest rate swap agreements.

(12) 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)	
Three months ending December 31, 2015	$1,390	$5,294
Year Ending December 31,		
2016	4,943	14,594
2017	3,308	14,626
2018	2,496	13,128
2019	1,897	11,882
Thereafter	3,661	63,801
	$17,695	$123,325

(1) This includes the Partnership’s purchase obligation for pet coke from CVR Refining and has been derived from a calculation of the average pet coke price paid to CVR Refining over the preceding two year period. See Note 13 ("Related Party Transactions") for further discussion of the coke supply agreement.

CRNF leases railcars and facilities under long-term operating leases. Lease expense is included in cost of product sold (exclusive of depreciation and amortization) and for the three months ended September 30, 2015 and 2014 totaled approximately $1.2 million and $1.2 million, respectively. Lease expense for the nine months ended September 30, 2015 and 2014 totaled approximately $3.5 million and $3.7 million, respectively. The lease agreements have various remaining terms. Some agreements are renewable, at CRNF's option, for additional periods. It is expected, in the ordinary course of business, that leases may be renewed or replaced as they expire.

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 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 September 30, 2015 and 2014, totaled approximately $0.9 million and $1.0 million, respectively. For the nine months ended September 30, 2015 and 2014, the expense totaled approximately $2.6 million and $3.0 million, respectively.

The Partnership is a party to a pet coke supply agreement with HollyFrontier Corporation. The term of this agreement ends in December 2015 and may be renewed. The delivered cost of this pet coke is included in cost of product sold (exclusive of depreciation and amortization) and totaled approximately $1.0 million and $1.2 million, respectively, for the three months ended September 30, 2015 and 2014. For the nine months ended September 30, 2015 and 2014, these expenses totaled approximately $3.3 million and $3.6 million, respectively.

Litigation

From time to time, the Partnership is involved in various lawsuits arising in the normal course of business, including environmental, health and safety ("EHS") matters described below under "Environmental, Health and Safety Matters." Liabilities, if any, related to such litigation are recognized when the related costs are probable and can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. 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. Except as described below, there were no new proceedings or material developments in proceedings from those provided in the 2014 Form 10-K or in the quarterly report on Form 10-Q for the period ended March 31, 2015, which was filed with the SEC on May 1, 2015. In the opinion of management, the ultimate resolution of any other litigation matters is not expected to have a material adverse effect on the accompanying condensed consolidated financial statements. There can be no assurance that management’s beliefs or opinions with respect to liability for potential litigation matters are accurate.

Rentech Nitrogen Mergers Litigation

On August 29, 2015, Mike Mustard, a purported unitholder of Rentech Nitrogen, filed a class action complaint on behalf of the public unitholders of Rentech Nitrogen against Rentech Nitrogen, Rentech Nitrogen GP, Rentech Nitrogen Holdings, Inc., Rentech, Inc., CVR Partners, DSHC, LLC, Merger Sub 1 and Merger Sub 2, and the members of the Rentech Nitrogen Board, in the Court of Chancery of the State of Delaware (the “Mustard Lawsuit”). The Mustard Lawsuit alleges, among other things, that the consideration offered by CVR Partners is unfair and inadequate and that, by pursuing a transaction that is the result of an allegedly conflicted and unfair process, certain of the defendants have breached their duties owed to the unitholders of Rentech Nitrogen, and are engaging in self-dealing. Specifically, the lawsuit alleges that the director defendants: (i) failed to take steps to maximize the value of Rentech Nitrogen to its public shareholders, (ii) failed to properly value Rentech Nitrogen, and (iii) ignored or did not protect against the numerous conflicts of interest arising out of the proposed transaction. The Mustard Lawsuit also alleges that Rentech Nitrogen, Rentech Nitrogen GP, Rentech Nitrogen Holdings, Inc., Rentech, Inc., CVR Partners, DSHC, LLC, Merger Sub 1 and Merger Sub 2 aided and abetted the director defendants in their purported breach of fiduciary duties.

On October 6, 2015, Jesse Sloan, a purported unitholder of Rentech Nitrogen, filed a class action complaint on behalf of the public unitholders of Rentech Nitrogen against Rentech Nitrogen, Rentech Nitrogen GP, CVR Partners, Merger Sub 1 and Merger Sub 2, and the members of the Rentech Nitrogen Board, in the United States District Court for the Northern District of California (the “Sloan Lawsuit”). The Sloan Lawsuit alleges, among other things, that the attempted sale of Rentech Nitrogen to CVR Partners was conducted by means of an unfair process and for an unfair price. Specifically, the lawsuit alleges that (i) Rentech Nitrogen GP and the Rentech Nitrogen Board breached their obligations under the partnership agreement and their implied duty of good faith and fair dealing by causing Rentech

Nitrogen to enter into the merger agreement and failing to disclose material information to unitholders of Rentech Nitrogen, (ii) the Rentech Nitrogen Board violated fiduciary duties owed to the unitholders of Rentech Nitrogen based primarily on allegations of inadequate consideration, restrictive deal protection devices and improper disclosure, (iii) each of the defendants aided and abetted in the foregoing breaches described in items (i) and (ii), and (iv) Rentech Nitrogen and the Rentech Nitrogen Board violated Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 and Rule 14a-9 thereunder based on improper disclosure contained in the Registration Statement on Form S-4 (Registration No. 333-206982), which was filed with the SEC by CVR Partners on September 17, 2015.

Among other remedies, the plaintiffs in these actions seek to enjoin the mergers and seek unspecified money damages. The lawsuits are at a preliminary state, and the outcome of any such litigation is uncertain. An adverse ruling in these actions may cause the mergers to be delayed or not be completed, which could cause the Partnership not to realize some or all of the anticipated benefits of the mergers. No amounts have been recognized in these condensed consolidated financial statements regarding the lawsuits.

Environmental, Health and Safety 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 laws or technology occur.

There have been no new developments or material changes to the environmental accruals or expected capital expenditures related to compliance with the foregoing environmental matters from those provided in the 2014 Form 10-K. CRNF believes it is in substantial compliance with existing EHS rules and regulations. There can be no assurance that the EHS matters which may develop in the future will not have a material adverse effect on the Partnership's business, financial condition or results of operations.

(13) Related Party Transactions

Related Party Agreements

CVR Partners is party to, or otherwise subject to certain agreements with CVR Energy and its subsidiaries (including CVR Refining and its subsidiaries) that govern the business relations among each party including: the (i) Feedstock and Shared Services Agreement; (ii) Coke Supply Agreement; (iii) Environmental Agreement; (iv) Services Agreement; (v) GP Services Agreement and (vi) Limited Partnership Agreement. Except as otherwise described below, there have been no new developments or material changes to these agreements from those provided in the 2014 Form 10-K.

Amounts owed to CVR Partners and CRNF from CVR Energy and its subsidiaries with respect to these agreements are included in prepaid expenses and other current assets and other long-term assets on the Condensed Consolidated Balance Sheets. Conversely, amounts owed to CVR Energy and its subsidiaries by CVR Partners and CRNF with respect to these agreements are included in accounts payable, personnel accruals and accrued expenses and other current liabilities on the Partnership's Condensed Consolidated Balance Sheets.

Feedstock and Shared Services Agreement

CRNF is party to a feedstock and shared services agreement with CRRM under which the two parties provide feedstock and other services to one another. These feedstocks and services are utilized in the respective production processes of CRRM's Coffeyville, Kansas refinery and CRNF's nitrogen fertilizer plant.

Pursuant to the feedstock and shared services agreement, CRNF and CRRM have agreed to transfer hydrogen to one another; provided, CRNF is not required to sell hydrogen to CRRM if such hydrogen is required for operation of CRNF's nitrogen fertilizer plant, if such sale would adversely affect the Partnership's classification as a partnership for federal income tax purposes, or if such sale would not be in CRNF's best interest. Net monthly sales of hydrogen to CRRM have been reflected as net sales for CVR Partners. Net monthly receipts of hydrogen from CRRM have been reflected in cost of product sold (exclusive of depreciation and amortization) for CVR Partners, when applicable. For the three months ended September 30, 2015 and 2014, the net sales generated from the sale of hydrogen to CRRM were approximately $0.5 million and $0.1 million, respectively. For the nine months ended September 30, 2015 and 2014, the net sales generated from the sale of hydrogen to CRRM were approximately $9.0 million and $6.9 million, respectively. At September 30, 2015 and December 31, 2014, there were approximately $0.2 million and $1.3 million, respectively, of receivables included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets associated with unpaid balances related to hydrogen sales.

CRNF is also obligated to make available to CRRM any nitrogen produced by the Linde air separation plant that is not required for the operation of the nitrogen fertilizer plant, as determined by CRNF in a commercially reasonable manner. Reimbursed direct operating expenses associated with nitrogen for the three months ended September 30, 2015 and 2014, were approximately $0 and $0.4 million, respectively. Reimbursed direct operating expenses associated with nitrogen for the nine months ended September 30, 2015 and 2014, were approximately $0 and $0.9 million, respectively.

The agreement also provides a mechanism pursuant to which CRNF transfers a tail gas stream to CRRM. CRNF receives the benefit of eliminating a waste gas stream and recovers the fuel value of the tail gas system. For the three and nine months ended September 30, 2015 and 2014, the net sales generated from the sale of tail gas to CRRM were nominal. In April 2011, in connection with the tail gas stream transfers to CRRM, CRRM installed a pipe between the Coffeyville, Kansas refinery and the nitrogen fertilizer plant to transfer the tail gas. CRNF agreed to pay CRRM the cost of installing the pipe and provide an additional 15% to cover the cost of capital, which was due from CRNF to CRRM over four years. At September 30, 2015 and December 31, 2014, there were assets of approximately $0.2 million and $0.2 million, respectively, included in prepaid expenses and other current assets and approximately $0.8 million and $1.0 million, respectively, included in other long-term assets. Additionally, at December 31, 2014, there was a liability of approximately $0.1 million in accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets.

At September 30, 2015 and December 31, 2014, receivables of approximately $0.2 million and $0.2 million, respectively, were included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets for amounts yet to be received related to components of the feedstock and shared services agreement, other than amounts related to hydrogen transfers and tail gas discussed above. At September 30, 2015 and December 31, 2014, current obligations of approximately $0.8 million and $1.1 million, respectively, were included in accounts payable on the Condensed Consolidated Balance Sheets associated with unpaid balances related to components of the feedstock and shared services agreement, other than amounts related to hydrogen transfers and tail gas discussed above.

Coke Supply Agreement

CRNF is party to a coke supply agreement with CRRM pursuant to which CRRM supplies CRNF with pet coke. This agreement provides that CRRM must deliver to CRNF during each calendar year an annual required amount of pet coke equal to the lesser of
(i) 100 percent of the pet coke produced at CRRM's Coffeyville, Kansas petroleum refinery or (ii) 500,000 tons of pet coke. CRNF is also obligated to purchase this annual required amount. If during a calendar month CRRM produces more than 41,667 tons of pet coke, then CRNF will have the option to purchase the excess at the purchase price provided for in the agreement. If CRNF declines to exercise this option, CRRM may sell the excess to a third party.

CRNF obtains most (over 70% on average during the last five years) of the pet coke it needs from CRRM's adjacent crude oil refinery pursuant to the pet coke supply agreement, and procures the remainder through a contract with HollyFrontier Corporation and on the open market. The price CRNF pays pursuant to the pet coke supply agreement is based on the lesser of a pet coke price derived from the price received for UAN, or the UAN-based price, and a pet coke price index. The UAN-based price begins with a pet coke price of $25 per ton based on a price per ton for UAN (exclusive of transportation cost), or netback price, of $205 per ton, and adjusts up or down $0.50 per ton for every $1.00 change in the netback price. The UAN-based price has a ceiling of $40 per ton and a floor of $5 per ton.

CRNF will pay any taxes associated with the sale, purchase, transportation, delivery, storage or consumption of the pet coke. CRNF is entitled to offset any amount payable for the pet coke against any amount due from CRRM under the feedstock and shared services agreement between the parties.

The cost of pet coke associated with the transfer of pet coke from CRRM to CRNF were approximately $1.1 million and $2.1 million for the three months ended September 30, 2015 and 2014, respectively, which was recorded in cost of product sold (exclusive of depreciation and amortization). For the nine months ended September 30, 2015 and 2014, cost of pet coke associated with the transfer of pet coke from CRRM to CRNF was approximately $5.0 million and $6.6 million, respectively. Payables of $0.6 million and $0.5 million related to the coke supply agreement were included in accounts payable on the Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014, respectively.

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September 30, 2015
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Services Agreement

CVR Partners obtains certain management and other services from CVR Energy pursuant to a services agreement between the Partnership, CVR GP and CVR Energy.

Net amounts incurred under the services agreement for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Direct operating expenses (exclusive of depreciation and amortization) — Affiliates	$0.9	$0.9	$2.8	$2.7
Selling, general and administrative expenses (exclusive of depreciation and amortization) — Affiliates	2.8	2.6	7.7	9.0
Total	$3.7	$3.5	$10.5	$11.7

For services performed in connection with the services agreement, the Partnership recognized personnel costs, excluding amounts related to share-based compensation that are disclosed in Note 4 ("Share Based Compensation"), of $1.6 million and $1.3 million, respectively, for the three months ended September 30, 2015 and 2014. For services performed in connection with the services agreement, the Partnership recognized personnel costs of $4.2 million and $4.1 million, respectively, for the nine months ended September 30, 2015 and 2014. At September 30, 2015 and December 31, 2014, current obligations of $2.9 million and $2.6 million, respectively, were included in accounts payable and accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheets with respect to amounts billed in accordance with the services agreement. At September 30, 2015 and December 31, 2014, receivables of $0.1 million and $0.1 million, respectively, were included in prepaid expenses and other current assets on the Consolidated Balance Sheets for amounts yet to be received related to components of the services agreement.

Limited Partnership Agreement

The partnership agreement provides that the Partnership will reimburse its general partner for all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership (including salary, bonus, incentive compensation and other amounts paid to any person to perform services for the Partnership or for its general partner in connection with operating the Partnership). The Partnership reimbursed its general partner for the three months ended September 30, 2015 and 2014 approximately $1.0 million and $0.6 million, respectively, pursuant to the partnership agreement primarily for personnel costs related to the compensation of executives at the general partner, who manage the Partnership's business. For the nine months ended September 30, 2015 and 2014, approximately $3.1 million and $1.8 million were incurred related to amounts due for reimbursement, respectively. At September 30, 2015 and December 31, 2014, current obligations of $2.2 million and $1.1 million, respectively, were included in personnel accruals on the Condensed Consolidated Balance Sheets related to amounts outstanding in accordance with the limited partnership agreement.

Insight Portfolio Group

Insight Portfolio Group LLC ("Insight Portfolio Group") is an entity formed by Mr. Icahn in order to maximize the potential buying power of a group of entities with which Mr. Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property at negotiated rates. In January 2013, CVR Energy acquired a minority equity interest in Insight Portfolio Group. The Partnership participates in Insight Portfolio Group's buying group through its relationship with CVR Energy. The Partnership may purchase a variety of goods and services as members of the buying group at prices and on terms that management believes would be more favorable than those which would be achieved on a stand-alone basis. Transactions with Insight Portfolio Group for each of the reporting periods were nominal.

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CVR PARTNERS, LP AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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New Term Loan Financing Commitment Letter
As discussed in Note 1 ("Formation of the Partnership, Organization and Nature of Business"), CVR Partners entered into 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 certain payments and expenses relating to the mergers.

(14) Fair Value Measurements

In accordance with ASC Topic 820 — Fair Value Measurements and Disclosures (“ASC 820”), the Partnership utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets or liabilities, such as a business.

ASC 820 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1 — Quoted prices in active markets for identical assets and liabilities

- Level 2 — Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

- Level 3 — Significant unobservable inputs (including the Partnership’s own assumptions in determining the fair value).

The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, as of September 30, 2015 and December 31, 2014, respectively.

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Financial Statement Caption and Description				
Cash equivalents (money market account)	$23,354	$—	$—	$23,354
Other current liabilities (interest rate swaps)	—	372	—	372

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Financial Statement Caption and Description				
Cash equivalents (money market account)	$53,323	$—	$—	$53,323
Other current liabilities (interest rate swaps)	—	855	—	855
Other long-term liabilities (interest rate swaps)	—	183	—	183
Total Liabilities	$—	$1,038	$—	$1,038

As of September 30, 2015 and December 31, 2014, the only financial assets and liabilities that are measured at fair value on a recurring basis are the Partnership's money market accounts and derivative instruments. The carrying value of the Partnership's debt approximates fair value. The Partnership has interest rate swaps that are measured at fair value on a recurring basis using Level 2 inputs. See further discussion in Note 11 ("Interest Rate Swap Agreements"). The fair values of these interest rate swap instruments are based on discounted cash flow models that incorporate the cash flows of the derivatives, as well as the current LIBOR rate and a forward LIBOR curve, along with other observable market inputs. The Partnership had no transfers of assets or liabilities between any of the above levels during the nine months ended September 30, 2015.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the unaudited condensed consolidated financial statements and related notes and with the statistical information and financial data appearing in this Report, as well as the Partnership's Annual Report on Form 10-K for the year ended December 31, 2014 and filed with the Securities and Exchange Commission ("SEC") as of February 20, 2015 (the "2014 Form 10-K"). Results of operations and cash flows for the three and nine months ended September 30, 2015 and 2014 are not necessarily indicative of results to be attained for any other period.

Forward-Looking Statements

This Report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains "forward-looking statements" as defined by the SEC, including statements concerning contemplated transactions and strategic plans, expectations and objectives for future operations. Forward-looking statements include, without limitation:

- statements, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future;
- statements relating to future financial or operational performance, future distributions, future capital sources and capital expenditures; and
- any other statements preceded by, followed by or that include the words "anticipates," "believes," "expects," "plans," "intends, "estimates," "projects," "could," "should," "may" or similar expressions.

Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. These statements are based on assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate in the circumstances. Such statements are subject to a number of risks and uncertainties, many of which are beyond our control. You are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements as a result of various factors, including but not limited to those set forth under "Risk Factors" in the 2014 Form 10-K as well as the risk factors disclosed under "Risk Factors" in Part II Item 1.A. of this Report. Such factors include, among others:

- our ability to make cash distributions on the common units;
- the volatile nature of our business and the variable nature of our distributions;
- the ability of our general partner to modify or revoke our distribution policy at any time;
- the cyclical nature of our business;
- the seasonal nature of our business;

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