CVR PARTNERS, LP
Form 10-Q
May 11, 2011

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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 March 31, 2011**
	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)*

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

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 o No þ

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 or 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 o 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. (Check one):

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

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

There were 73,000,000 common units outstanding at May 9, 2011.

CVR PARTNERS, LP AND SUBSIDIARY

INDEX TO QUARTERLY REPORT ON FORM 10-Q
For The Quarter Ended March 31, 2011

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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.

catalyst A substance that alters, accelerates, or instigates chemical changes, but is neither produced, consumed nor altered in the process.

CRLLC Coffeyville Resources, LLC, the subsidiary of CVR Energy, Inc. which was our sole limited partner prior to the Offering and now directly owns our general partner and 50,920,000 common units following the Offering.

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, together with its subsidiaries, but excluding CVR Partners, LP and its subsidiary. Subsequent to the completion of the Offering, CVR Energy indirectly owns our general partner and 50,920,000 common units.

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.

general partner CVR GP, LLC, our general partner which, following the Offering, is a wholly-owned subsidiary of CRLLC, and prior to the Offering was our managing general partner and a wholly-owned subsidiary of Coffeyville Acquisition III LLC.

MMBtu One million British thermal units or Btu is a measure of energy. One Btu of heat is required to raise the temperature of one pound of water one degree Fahrenheit.

Offering Initial public offering of CVR Partners, LP common units that closed on April 13, 2011.

on-stream factor 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.

turnaround A periodically required standard procedure to inspect, refurbish, repair and maintain the nitrogen fertilizer plant assets. This process involves the shutdown and inspection of major processing units and occurs every two years for the nitrogen fertilizer plant.

UAN 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 Subsidiary

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (unaudited)	December 31, 2010
	(dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 71,369	$ 42,745
Accounts receivable, net of allowance for doubtful accounts of $47 and $43, respectively	7,407	5,036
Inventories	20,820	19,830
Prepaid expenses and other current assets including $164 and $2,587 from affiliates at March 31, 2011 and December 31, 2010, respectively	5,889	5,557
Total current assets	105,485	73,168
Property, plant, and equipment, net of accumulated depreciation	332,945	337,938
Intangible assets, net	43	46
Goodwill	40,969	40,969
Other long-term assets	33	44
Total assets	$ 479,475	$ 452,165
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities:		
Accounts payable, including $2,505 and $3,323 due to affiliates at March 31, 2011 and December 31, 2010, respectively	$ 12,479	$ 17,758
Personnel accruals	1,421	1,848
Deferred revenue	26,696	18,660
Accrued expenses and other current liabilities	11,398	7,810
Total current liabilities	51,994	46,076
Long-term liabilities:		
Other long-term liabilities	3,935	3,886
Total long-term liabilities	3,935	3,886
Commitments and contingencies		
Partners capital:		

Special general partner s interest, 30,303,000 units issued and outstanding	419,270	397,951
Limited partner s interest, 30,333 units issued and outstanding	422	398
Managing partner s interest	3,854	3,854
Total partners capital	423,546	402,203
Total liabilities and partners capital	$ 479,475	$ 452,165

See accompanying notes to the condensed consolidated financial statements.

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CVR Partners, LP and Subsidiary

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31 2011	2010
	(unaudited) (dollars in thousands)	
Net sales	$ 57,377	$ 38,285
Operating costs and expenses:		
Cost of product sold (exclusive of depreciation and amortization) Affiliates	1,469	1,006
Cost of product sold (exclusive of depreciation and amortization) Third parties	6,022	3,971
	7,491	4,977
Direct operating expenses (exclusive of depreciation and amortization) Affiliates	693	494
Direct operating expenses (exclusive of depreciation and amortization) Third parties	22,331	21,679
	23,024	22,173
Insurance recovery business interruption	(2,870)	
Selling, general and administrative expenses (exclusive of depreciation and amortization) Affiliates	6,398	2,982
Selling, general and administrative expenses (exclusive of depreciation and amortization) Third parties	1,931	520
	8,329	3,502
Depreciation and amortization	4,637	4,665
Total operating costs and expenses	40,611	35,317
Operating income	16,766	2,968
Other income (expense):		
Interest income	7	3,119
Other income (expense)	(29)	(56)
Total other income (expense)	(22)	3,063
Income before income tax expense	16,744	6,031
Income tax expense	10	28
Net income	$ 16,734	$ 6,003

See accompanying notes to the condensed consolidated financial statements.

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CVR Partners, LP and Subsidiary

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2011	2010
	(unaudited) (in thousands)	
Cash flows from operating activities:		
Net income	$ 16,734	$ 6,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,637	4,665
Allowance for doubtful accounts	4	(12)
Loss on disposition of fixed assets	631	42
Share-based compensation Affiliates	4,609	1,096
Accounts receivable	(2,375)	(209)
Inventories	(990)	(1,846)
Insurance receivable	(2,870)	
Business interruption insurance proceeds	2,315	
Prepaid expenses and other current assets	1,708	(143)
Accounts payable	(3,499)	1,166
Deferred revenue	8,036	19,784
Accrued expenses and other current liabilities	3,161	2,634
Other long-term liabilities	49	70
Net cash provided by operating activities	32,150	33,250
Cash flows from investing activities:		
Capital expenditures	(2,041)	(1,216)
Insurance proceeds from UAN reactor rupture	225	
Net cash used in investing activities	(1,816)	(1,216)
Cash flows from financing activities:		
Deferred costs of initial public offering	(1,615)	
Payment of financing costs	(95)	
Due from affiliate		(33,901)
Net cash used in financing activities	(1,710)	(33,901)
Net increase (decrease) in cash and cash equivalents	28,624	(1,867)
Cash and cash equivalents, beginning of period	42,745	5,440
Cash and cash equivalents, end of period	$ 71,369	$ 3,573

Supplemental disclosures:

Non-cash investing activities:		
Accrual of construction in progress additions	$ (1,780)	$ (499)

See accompanying notes to the condensed consolidated financial statements.

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CVR Partners, LP and Subsidiary

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(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. This transfer was not considered a business combination as it was a transfer of assets among entities under common control and, accordingly, balances were transferred at their historical cost. The Partnership became the sole member of CRNF. In consideration for CRLLC transferring its nitrogen fertilizer business to the Partnership, (1) CRLLC directly acquired 30,333 special LP units, representing a 0.1% limited partner interest in the Partnership, (2) a wholly-owned subsidiary of CRLLC, acquired 30,303,000 special GP units, representing a 99.9% general partner interest in the Partnership, and (3) the managing general partner, 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 an initial public offering of 22,080,000 common units priced at $16.00 per unit (the Offering) (such amount includes common units issued pursuant to the exercise of the underwriters over-allotment option). The common units, which are listed on the New York Stock Exchange, began trading on April 8, 2011 under the symbol UAN .

The net proceeds to CVR Partners from the Offering (including the net proceeds from the exercise of the underwriter s over-allotment option) were approximately $324.6 million, after deducting underwriting discounts and commissions and estimated offering expenses. The net proceeds from the 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 Offering; approximately $26.0 million was used to purchase (and subsequently extinguish) the IDRs owned by the general partner; approximately $4.4 million was used to pay financing fees and associated legal and professional fees resulting from the new credit facility; and the

CVR Partners, LP and Subsidiary

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

balance was used or will be used for general partnership purposes, including approximately $104.0 million to fund the continuation of the UAN expansion at the nitrogen fertilizer plant.

Immediately prior to the closing of the Offering, the Partnership distributed approximately $54.0 million of cash on hand to CRLLC. In connection with the 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 the managing general partner selling its IDRs to the Partnership, which were then extinguished, CALLC III sold the managing general partner to CRLLC for a nominal amount.

Subsequent to the closing of the Offering, common units held by public security holders represent approximately 30.2% of all outstanding limited partner interests. CRLLC holds approximately 69.8% of all outstanding limited partner interests.

The Partnership is operated by CVR Energy s senior management team pursuant to a services agreement among CVR Energy, the managing general partner and the Partnership. In October 2007, the managing general partner, the special general partner, and CRLLC, as the limited partner, entered into an amended and restated limited partnership agreement setting forth the various rights and responsibilities of the partners of CVR Partners. The Partnership also entered into a number of agreements with CVR Energy and the managing general partner to regulate certain business relations between the Partnership and the other parties thereto. See Note 15 (Related Party Transactions) for further discussion. In connection with the Offering, certain of these agreements, including the amended and restated limited partnership agreement, were amended and/or restated. Additionally, in connection with the Offering, the Partnership and CRNF were released from their obligations as a guarantor 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 14 (Commitments and Contingencies).

(2) Basis of Presentation

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

In the opinion of the Partnership s management, the accompanying consolidated financial statements and related notes reflect all adjustments that are necessary to fairly present the financial position of the Partnership as of March 31, 2011 and December 31, 2010 and the results of operations and cash flows of the Partnership for the three months ended March 31, 2011 and 2010.

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, and other discharge of contingent assets and liabilities. Actual results could differ from those

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CVR Partners, LP and Subsidiary

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

estimates. Results of operation and cash flow are not necessarily indicative of the results that will be realized for the year ending December 31, 2011 or any other interim period.

The Partnership has omitted net income per unit because the Partnership operated under a different capital structure at March 31, 2011, than the capital structure resulting from the Offering, and, as a result, the per unit data would not be meaningful to investors.

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 consolidated financial statements through the date of issuance of the condensed consolidated financial statements.

(3) Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements an amendment to Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures. This amendment requires an entity to: (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers, (ii) present separate information for Level 3 activity pertaining to gross purchases, sales, issuances, and settlements and (iii) enhance disclosures of assets and liabilities subject to fair value measurements. The provisions of ASU No. 2010-06 are effective for the Partnership for interim and annual reporting beginning after December 15, 2009, with one new disclosure effective after December 15, 2010. The Partnership adopted this ASU as of January 1, 2010. The adoption of this standard did not impact the Partnership s financial position or results of operations.

(4) Cost Classifications

Cost of product sold (exclusive of depreciation and amortization) includes cost of pet coke expense and freight and distribution expenses. For the three months ended March 31, 2011 and 2010, respectively there was no depreciation expense incurred related to the cost of product sold category.

Direct operating expenses (exclusive of depreciation and amortization) includes direct costs of labor, maintenance and services, energy and utility costs, property taxes, environmental compliance costs as well as chemical and catalyst and other direct operating expenses. Direct operating expenses also include allocated non-cash share-based compensation expense from CVR Energy and CALLC III, as discussed in Note 13 (Share-Based Compensation). Direct operating expenses exclude depreciation and amortization of $4,634,000 and $4,662,000 for the three months ended March 31, 2011 and 2010, respectively.

Selling, general and administrative expenses (exclusive of depreciation and amortization) consist primarily of direct and allocated legal expenses, treasury, accounting, marketing, human resources and the cost of maintaining the corporate offices in Texas and Kansas. Selling, general and administrative expenses also include allocated non-cash share-based compensation expense from CVR Energy and CALLC III, as discussed in Note 13 (Share-Based Compensation). Selling, general and administrative expenses exclude depreciation and amortization of $3,000 and $3,000 for the three months ended March 31, 2011 and 2010, respectively.

(5) Partners Capital

At March 31, 2011, the Partnership had 30,333 special LP units outstanding, representing 0.1% of the total Partnership units outstanding, and 30,303,000 special GP interests outstanding, representing 99.9% of the total Partnership units outstanding. In addition, the managing general partner owned the managing general partner interest and the IDRs. CVR Energy indirectly owned all of the interests in the Partnership (other than the managing general partner interest and the IDRs) and was entitled to all cash distributed by the Partnership.

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CVR Partners, LP and Subsidiary

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the Offering that closed on April 13, 2011, 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. In addition, the managing general partner sold its IDRs to the Partnership and the IDRs were extinguished, and CALLC III sold the managing general partner to CRLLC. Following the Offering, 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.

The board of directors of the general partner has adopted a policy pursuant to which the Partnership will distribute all of the available cash it generates each quarter, beginning with the quarter ending June 30, 2011. Available cash for each quarter will be determined by the board of directors of the general partner following the end of such quarter. The Partnership expects that available cash for each quarter will generally equal its cash flow from operations for the quarter, less cash needed for maintenance capital expenditures, debt service and other contractual obligations, and reserves for future operating or capital needs that the board of directors of our general partner deems necessary or appropriate.

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.

(6) Inventories

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

Inventories consisted of the following:

	March 31, 2011	December 31, 2010
	(in thousands)	
Finished goods	$ 4,763	$ 3,645
Raw materials and precious metals	4,432	4,077
Parts and supplies	11,625	12,108
	$ 20,820	$ 19,830

CVR Partners, LP and Subsidiary

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of prepayments, non-trade accounts receivables, affiliates receivables and other general current assets. Prepaid expenses and other current assets were as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Accrued interest receivables(1)	$	$ 2,318
Deferred initial public offering costs	3,673	2,089
Other(1)	2,216	1,150
	$ 5,889	$ 5,557

(1) The accrued interest receivable represents amounts due from CRLLC, a related party, in connection with the due from affiliate balance. As of December 31, 2010, the due from affiliate balance of $160,000,000 was distributed to CRLLC and the special general partner in accordance with their respective percentage interests. Additionally, included in the table above are amounts owed to the Partnership related to activities associated with the feedstock and shared services agreement. See Note 15 (Related Party Transactions) for additional discussion of amounts owed to the Partnership related to the due from affiliate balance and detail of amounts owed to the Partnership related to the feedstock and shared services agreement.

(8) Property, Plant, and Equipment

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

	March 31, 2011	December 31, 2010
	(in thousands)	
Land and improvements	$ 2,516	$ 2,492
Buildings	815	724
Machinery and equipment	396,488	397,236
Automotive equipment	391	391
Furniture and fixtures	246	245
Construction in progress	32,225	32,776
	432,681	433,864
Accumulated depreciation	99,736	95,926

	$ 332,945	$ 337,938

(9) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Property taxes	$ 10,505	$ 7,025
Capital asset and dismantling obligation	250	250
Other accrued expenses	643	535
	$ 11,398	$ 7,810

CVR Partners, LP and Subsidiary

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Nitrogen Fertilizer Incident

On September 30, 2010, the nitrogen fertilizer plant experienced an interruption in operations due to a rupture of a high-pressure UAN vessel. All operations at the nitrogen fertilizer facility were immediately shut down. No one was injured in the incident. Repairs to the facility as a result of the rupture were substantially complete as of December 31, 2010.

Total gross costs recorded as of March 31, 2011 due to the incident were approximately $10,893,000 for repairs and maintenance and other associated costs. Approximately $371,000 of these costs was incurred during the three months ended March 31, 2011 and was included in direct operating expenses (exclusive of depreciation and amortization). Of the gross costs incurred approximately $4,445,000 was capitalized.

The Partnership maintains property damage insurance under CVR Energy s insurance policies which have an associated deductible of $2,500,000. The Partnership anticipates that substantially all of the repair costs in excess of the $2,500,000 deductible should be covered by insurance. These insurance policies also provide coverage for interruption to the business, including lost profits, and reimbursement for other expenses and costs the Partnership has incurred relating to the damage and losses suffered for business interruption. This coverage, however, only applies to losses incurred after a business interruption of 45 days. In connection with the incident, the Partnership recorded an insurance receivable of $4,500,000, of which $4,275,000 of insurance proceeds was received in December 2010 and the remaining $225,000 was received in January 2011. The recording of the insurance receivable resulted in a reduction of direct operating expenses (exclusive of depreciation and amortization).

In the first quarter of 2011, the Partnership submitted a partial business interruption claim for damages and losses, as afforded by its insurance policies. The Partnership s insurance carriers agreed to make interim payments totaling $2,870,000. The Partnership received insurance proceeds totaling $2,315,000 related to its business interruption claim through March 31, 2011 and received the remaining $555,000 in April 2011. The proceeds received and to be received as of March 31, 2011 have been included on the Condensed Consolidated Statements of Operations under Insurance recovery business interruption.

(11) Income Taxes

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

(12) Benefit Plans

CRLLC sponsors and administers a defined-contribution 401(k) plan (the Plan) for the employees of CRNF. Participants in the Plan may elect to contribute up to 50% of their annual salaries, and up to 100% of their annual bonus received pursuant to CVR Energy s income sharing plan. CRNF matches up to 75% of the first 6% of the participant s contribution. Participants in the Plan are immediately vested in their individual contributions. The Plan has a three year vesting schedule for CRNF s matching funds and contains a provision to count service with any predecessor organization. For the three months ended March 31, 2011 and 2010, CRNF s contributions under the Plan were $111,000 and $104,000, respectively.

(13) Share-Based Compensation

Certain employees of CRNF and employees of CVR Energy who perform services for the Partnership under the services agreement with CVR Energy participate in equity compensation plans of CVR Partners affiliates. Accordingly, CVR Partners has recorded compensation expense for these plans in accordance with

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CVR Partners, LP and Subsidiary

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

At March 31, 2011, the estimated fair value of the override units of CALLC was determined using a probability-weighted expected return method. The probability-weighted expected return method involves a forward-looking analysis of possible future outcomes, the estimation of ranges of future and present value under each outcome, and the application of a probability factor to each outcome in conjunction with the application of the current value of CVR Energy s common stock price with a Black-Scholes option pricing formula, as remeasured at each reporting date until the awards are vested. The probability-weighted expected return method was also used to determine the estimated fair value of the override units of CALLC and CALLC II for the three months ended March 31, 2010.

At March 31, 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 and also considered the proposed Offering of the Partnership including the purchase of the managing GP interest (and the associated IDRs). At March 31, 2010, 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 representative of the nature of the interests held by CALLC III in the Partnership.

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. As a result of this offering, CALLC reduced its beneficial ownership in CVR Energy to approximately 9% of its outstanding shares as of the date of this Report and CALLC II is no longer a stockholder of CVR Energy. Subsequent to CALLC II s divestiture of its ownership interest in CVR Energy, no additional share-based compensation expense was incurred with respect to override units and phantom units associated with CALLC II.

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CVR Partners, LP and Subsidiary

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Increase (Decrease) for the Three Months Ended March 31, 2011	2010
				(in thousands)	
Override Operating Units(a)	$ 11.31	919,630	June 2005	$	$ 69
Override Operating Units(b)	$ 34.72	72,492	December 2006		2
Override Value Units(c)	$ 11.31	1,839,265	June 2005	1,478	527
Override Value Units(d)	$ 34.72	144,966	December 2006	235	9
Override Units(e)	$ 10.00	138,281	October 2007		
Override Units(f)	$ 10.00	642,219	February 2008	84	
			Total	$ 1,797	$ 607

* As CVR Energy s common stock price increases or decreases, compensation expense associated with the unvested CALLC and CALLC II override units increases or is reversed in correlation with the calculation of the fair value under the probability-weighted expected return method.

Valuation Assumptions

Significant assumptions used in the valuation of the Override Operating Units (a) and (b) were as follows:

	(a) Override Operating Units March 31, 2010	(b) Override Operating Units March 31, 2010
Estimated forfeiture rate	None	None
CVR Energy s closing stock price	$ 8.75	$ 8.75
Estimated weighted-average fair value (per unit)	$ 15.01	$ 2.52
Marketability and minority interest discounts	20.0%	20.0%
Volatility	50.0%	50.0%

On the tenth anniversary of the issuance of override operating units, such units convert into an equivalent number of override value units. Override operating units are forfeited upon termination of employment for cause. As of June 30, 2010, all recipients of these override operating units were fully vested.

Significant assumptions used in the valuation of the Override Value Units (c) and (d) were as follows:

	(c) Override Value Units March 31,		(d) Override Value Units March 31,	
	2011	**2010**	**2011**	**2010**
Estimated forfeiture rate	None	None	None	None
Derived service period	6 years	6 years	6 years	6 years
CVR Energy s closing stock price	$ 23.16	$ 8.75	$ 23.16	$ 8.75
Estimated weighted-average fair value (per unit)	$ 22.61	$ 9.61	$ 13.70	$ 2.50
Marketability and minority interest discounts	5.0%	20.0%	5.0%	20.0%
Volatility	47.1%	50.0%	47.1%	50.0%

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unless the override unit committee of the board of directors of CALLC or CALLC III takes an action to prevent forfeiture, override value units are forfeited upon termination of employment for any reason, except that in the event of termination of employment by reason of death or disability, all override value units are initially subject to forfeiture as follows:

Minimum Period Held	**Forfeiture Percentage**
2 years	75%
3 years	50%
4 years	25%
5 years	0%

(e) *Override Units* Using a binomial and a probability-weighted expected return method that utilized CALLC III s cash flow projections which includes expected future earnings and the anticipated timing of IDRs, the estimated grant date fair value of the override units was approximately $3,000. As a non-contributing investor, CVR Energy also recognized income equal to the amount that its interest in the investee s net book value has increased (that is its percentage share of the contributed capital recognized by the investee) as a result of the disproportionate funding of the compensation cost. These units were fully vested at the date of grant.

(f) *Override Units* Using a probability-weighted expected return method that utilized CALLC III s cash flow projections which includes expected future earnings and the anticipated timing of IDRs, the estimated grant date fair value of the override units was approximately $3,000. As a non-contributing investor, CVR Energy also recognized income equal to the amount that its interest in the investee s net book value has increased (that is its percentage share of the contributed capital recognized by the investee) as a result of the disproportionate funding of the compensation cost. Of the 642,219 units issued, 109,720 were immediately vested upon issuance and the remaining units are subject to a forfeiture schedule. Significant assumptions used in the valuation were as follows:

	March 31,	
	2011	**2010**
Estimated forfeiture rate	None	None
Derived Service Period	Based on forfeiture schedule	Based on forfeiture schedule
Estimated fair value (per unit)	$2.82	$0.08
Marketability and minority interest discount	5.0%	20.0%
Volatility	47.0%	59.7%

Assuming the allocation of costs from CVR Energy remains consistent with the allocation percentages in place at March 31, 2011 and based upon the estimated fair value at March 31, 2011, there was approximately $404,000 of unrecognized compensation expense related to non-voting override units. This expense is expected to be recognized by CVR Partners during the second quarter of 2011.

Phantom Unit Plans

CVR Energy, through CRLLC, has two Phantom Unit Appreciation Plans (the Phantom Unit Plans) whereby directors, employees, and service providers may be awarded phantom points at the discretion of the board of directors or the compensation committee. Holders of service phantom points have rights to receive distributions when holders of override operating units receive distributions. Holders of performance phantom points have rights to receive distributions when CALLC and CALLC II holders of override value units receive distributions. There are no other rights or guarantees and the plans expire on July 25, 2015, or at the discretion of the compensation committee of the board of directors. As of March 31, 2011, the issued Profits Interest

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(combined phantom points and override units) represented 15.0% of combined common unit interest and Profits Interest of CALLC and CALLC II. The Profits Interest was comprised of approximately 11.1% of override interest and approximately 3.9% of phantom interest. The expense associated with these awards is based on the current fair value of the awards which was derived from a probability-weighted expected return method. The probability-weighted expected return method involves a forward-looking analysis of possible future outcomes, the estimation of ranges of future and present value under each outcome, and the application of a probability factor to each outcome in conjunction with the application of the current value of CVR Energy s common stock price with a Black-Scholes option pricing formula, as remeasured at each reporting date until the awards are settled. Using CVR Energy s closing stock price at March 31, 2011 and 2010, respectively, to determine CVR Energy s equity value, through an independent valuation process, the service phantom interest and performance phantom interest were valued as follows:

	March 31, 2011	March 31, 2010
Service Phantom interest (per point)	$ 13.14	$ 14.49
Performance Phantom interest (per point)	$ 22.62	$ 9.41

Compensation expense for the three months ended March 31, 2011 and 2010, related to the Phantom Unit Plans was $2,194,000 and $473,000, respectively.

Assuming the allocation of costs from CVR Energy remains consistent with the allocation of March 31, 2011 and based upon the estimated fair value at March 31, 2011, there was approximately $36,000 of unrecognized compensation expense related to the Phantom Unit Plans. This is expected to be recognized over a remaining period of less than one year.

Long-Term Incentive Plan

CVR Energy has a Long-Term Incentive Plan (CVR Energy LTIP) that permits the grant of options, stock appreciation rights, restricted shares, restricted share units, dividend equivalent rights, share awards and performance awards (including performance share units, performance units and performance based restricted stock). As of March 31, 2011, only restricted shares of CVR Energy 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.

Non-Vested Stock

Through the CVR Energy LTIP, shares of non-vested common stock have been granted to employees of CVR Energy and CRNF. Non-vested 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. Assuming the allocation of costs from CVR Energy remains consistent with the allocation percentages in place at March 31, 2011, there was approximately $5,507,000 of total unrecognized compensation cost related to non-vested 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 unvested shares and respective allocation percentage for individuals whom, as of March 31, 2011, compensation expense has been allocated to the Partnership.

Compensation expense recorded for the three months ended March 31, 2011 and 2010, related to the non-vested stock, was $618,000 and $16,000, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the 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. In connection with the Offering, phantom units were issued to certain board members of the Partnership s general partner. These phantom units are expected to vest six months following the grant date.

(14) Commitments and Contingencies

Leases and Unconditional Purchase Obligations

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

	Operating Leases	Unconditional Purchase Obligations(1)
	(in thousands)	
Nine months ending December 31, 2011	$ 2,863	$ 8,136
Year ending December 31, 2012	4,027	10,980
Year ending December 31, 2013	3,215	11,403
Year ending December 31, 2014	1,580	11,483
Year ending December 31, 2015	725	11,566
Thereafter	339	90,022
	$ 12,749	$ 143,590

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

CRNF leases railcars under long-term operating leases. Lease expense for the three months ended March 31, 2011 and 2010, totaled approximately $1,011,000 and $938,000, 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 will be renewed or replaced as they expire.

CRNF has an agreement with the City of Coffeyville (the City) pursuant to which it must make a series of future payments for the supply, generation and transmission of electricity and City margin based upon agreed upon rates. This agreement has an expiration of July 1, 2019. Effective August 2008 and through July 2010, the City began charging a higher rate for electricity than what had been agreed to in the contract. CRNF filed a lawsuit to have the contract enforced as written and to recover other damages. CRNF paid the higher rates under protest and subject to the lawsuit in order to obtain the electricity. In August 2010, the lawsuit was settled and CRNF received a return of funds totaling $4,788,000. This return of funds was recorded in direct operating expenses (exclusive of depreciation and amortization) in the Consolidated Statements of Operations during the third quarter of 2010. In connection with the settlement, the electrical services agreement was amended. As a result of the amendment, the annual committed contractual payments are estimated to be $1,943,000. As of March 31, 2011 and December 31, 2010, the estimated remaining obligation of CRNF totaled $16,104,000 and $16,514,000, respectively, through July 1, 2019. These estimates are subject to change based upon the Company s actual usage.

During 2005, CRNF entered into the Amended and Restated On-Site Product Supply Agreement with Linde, Inc. Pursuant to the agreement, which expires in 2020, CRNF is required to take as available and pay approximately $300,000 per month, which amount is subject to annual inflation adjustments, for the supply of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

oxygen and nitrogen to the fertilizer operation. Expenses associated with this agreement are included in direct operating expenses (exclusive of depreciation and amortization) and for the three months ended March 31, 2011 and 2010, totaled approximately $959,000 and $1,506,000, respectively.

CRNF entered into a sales agreement with Cominco Fertilizer Partnership on November 20, 2007 to purchase equipment and materials which comprise a nitric acid plant. CRNF s obligation related to the execution of the agreement in 2007 for the purchase of the assets was $3,500,000. On May 25, 2009, CRNF and Cominco amended the contract increasing the liability to $4,250,000. In consideration of the increased liability, the timeline for removal of the equipment and payment schedule was extended. The amendment sets forth payment milestones based upon the timing of removal of identified assets. The balance of the assets purchased is to be removed by November 20, 2013, with final payment due at that time. As of March 31, 2011, $2,000,000 had been paid. Additionally, as of March 31, 2011, $2,374,000 was accrued related to the obligation to dismantle the unit. As of March 31, 2011, the Partnership had accrued a total of $4,148,000 with respect to the nitric acid plant and the related dismantling obligation. Of this amount, $250,000 was included in accrued expenses and other current liabilities and the remaining $3,898,000 was included in other long-term liabilities on the Condensed Consolidated Balance Sheets. The related asset amounts are included in construction-in-progress at March 31, 2011.

CRNF entered into a lease agreement effective October 25, 2007 with CVR Energy under which certain office and laboratory space is leased. This lease agreement was amended and restated in connection with the Offering and extended through October 2017. The agreement requires CRNF to pay $8,000 on the first day of each calendar month during the term of the agreement. See Note 15 (Related Party Transactions) for further discussion.

On February 22, 2011, CRLLC entered into the $250.0 million ABL credit facility scheduled to mature in August 2015 that replaced its first priority credit facility which was terminated. The ABL credit facility is used to finance ongoing working capital, capital expenditures, letters of credit issuance and general corporate needs. At March 31, 2011, CRLLC s senior secured notes had an aggregate principal balance of $472,500,000. $247,500,000 of the senior secured notes mature on April 1, 2015 and the remaining $225,000,000 of senior secured notes mature on April 1, 2017. The Partnership and CRNF were each released from their obligation as a guarantor or obligor, as applicable, under CRLLC s ABL credit facility, 9.0% First Lien Senior Secured Notes due 2015 and 10.875% Second Lien Senior Secured Notes due 2017, as a result of the closing of the Offering.

Litigation

From time to time, the Partnership is involved in various lawsuits arising in the normal course of business, including matters such as those described below under, Environmental, Health, and Safety (EHS) Matters. Liabilities related to such litigation are recognized when the related costs are probable and can be reasonably estimated. Management believes the Partnership has accrued for losses for which it may ultimately be responsible. It is possible that management s estimates of the outcomes will change within the next year due to uncertainties inherent in litigation and settlement negotiations. In the opinion of management, the ultimate resolution of any other litigation matters is not expected to have a material adverse effect on the 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.

CRNF received a ten year property tax abatement from Montgomery County, Kansas in connection with the construction of the nitrogen fertilizer plant that expired on December 31, 2007. In connection with the expiration of the abatement, the county reassessed CRNF s nitrogen fertilizer plant and classified the nitrogen fertilizer plant as almost entirely real property instead of almost entirely personal property. The reassessment has resulted in an increase to annual property tax expense for CRNF by an average of approximately $10.7 million per year for the years ended December 31, 2008 and December 31, 2009, and approximately $11.7 million for the year ended December 31, 2010. CRNF does not agree with the county s classification of the nitrogen fertilizer plant and is currently disputing it before the Kansas Court of Tax Appeals (COTA).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

However, CRNF has fully accrued and paid for the property taxes the county claims are owed for the years ended December 31, 2010, 2009 and 2008. The first payment in respect of CRNF s 2010 property taxes was paid in December 2010 and the second payment was paid in May 2011. These amounts are reflected as a direct operating expense on the Condensed Consolidated Statements of Operations. An evidentiary hearing before COTA occurred during the first quarter of 2011 regarding the property tax claims for the year ended December 31, 2008. CRNF believes COTA is likely to issue a ruling sometime during 2011. However, the timing of a ruling in the case is uncertain, and there can be no assurance that CRNF will receive a ruling in 2011. If CRNF is successful in having the nitrogen fertilizer plant reclassified as personal property, in whole or in part, a portion of the accrued and paid expenses would be refunded to CRNF, which could have a material positive effect on the results of operations. If CRNF is not successful in having the nitrogen fertilizer plant reclassified as personal property, in whole or in part, CRNF expects that it will pay taxes at or below the elevated rates described above.

Environmental, Health, and Safety (EHS) Matters

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

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

In 2005, CRNF agreed to participate in the State of Kansas Voluntary Cleanup and Property Redevelopment Program (VCPRP) to address a reported release of UAN at its UAN loading rack. As of March 31, 2011 and December 31, 2010, environmental accruals of $82,000 and $91,000, respectively, were reflected in the consolidated balance sheets for probable and estimated costs for remediation of environmental contamination under the VCPRP. At March 31, 2011 and December 31, 2010 the entire balance was included in accrued expenses and other current liabilities.

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

In 2009, the federal Occupational Safety and Health Act (OSHA) announced that it was going to pursue National Emphasis Program (the NEP) inspections for chemical operations. As such, OSHA began a process safety management NEP inspection at the nitrogen fertilizer plant in late 2010 resulting in an assessed penalty of approximately $9,700 and noted no serious violations.

Environmental expenditures are capitalized when such expenditures are expected to result in future economic benefits. Capital expenditures for the three months ended March 31, 2011 and 2010, were approximately $146,000 and $143,000, respectively, and were incurred to improve the environmental compliance and efficiency of the operations. CRNF believes it is in substantial compliance with existing EHS rules and regulations. There can be no assurance that the EHS matters described above or other EHS matters which may develop in the future will not have a material adverse effect on the business, financial condition, or results of operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Related Party Transactions

Related Party Agreements