CVR PARTNERS, LP
Form 10-Q
April 29, 2016

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, 2016

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 o	Accelerated filer þ	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 113,282,973 common units outstanding at April 26, 2016.

CVR PARTNERS, LP AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
For The Quarter Ended March 31, 2016

Table of Contents

GLOSSARY OF SELECTED TERMS

The following are definitions of certain terms used in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (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.
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 CRLLC.
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.
throughput	The volume processed through a unit.
ton	One ton is equal to 2,000 pounds.

Table of Contents

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.

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (unaudited)	December 31, 2015
	(in thousands, except unit data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$51,979	$ 49,967
Accounts receivable, net of allowance for doubtful accounts of $258 and $27, at March 31, 2016 and December 31, 2015, respectively	9,066	7,187
Inventories	32,592	37,529
Prepaid expenses and other current assets, including $283 and $883 from affiliates at March 31, 2016 and December 31, 2015, respectively	3,100	3,862
Total current assets	96,737	98,545
Property, plant, and equipment, net of accumulated depreciation	387,635	393,133
Goodwill	40,969	40,969
Other long-term assets, including $732 and $777 with affiliates at March 31, 2016 and December 31, 2015, respectively	3,881	3,608
Total assets	$529,222	$ 536,255
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable, including $1,617 and $1,940 due to affiliates at March 31, 2016 and December 31, 2015, respectively	$11,488	$ 11,103
Personnel accruals, including $1,230 and $1,974 with affiliates at March 31, 2016 and December 31, 2015, respectively	3,162	5,999
Deferred revenue	838	3,129
Accrued expenses and other current liabilities, including $919 and $2,334 with affiliates at March 31, 2016 and December 31, 2015, respectively	4,776	5,683
Total current liabilities	20,264	25,914
Long-term liabilities:		
Long-term debt, net of current portion	124,974	124,773
Other long-term liabilities	16	16
Total long-term liabilities	124,990	124,789
Commitments and contingencies		
Partners' capital:		
Common unitholders 73,128,269 units issued and outstanding at March 31, 2016 and December 31, 2015	383,967	385,670
General partner interest	1	1
Accumulated other comprehensive loss	—	(119)
Total partners' capital	383,968	385,552
Total liabilities and partners' capital	$529,222	$ 536,255

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2016	2015
	(unaudited) (in thousands, except per unit data)	
Net sales	$73,092	$93,050
Operating costs and expenses:		
Cost of product sold (exclusive of depreciation and amortization) — Affiliates	821	1,818
Cost of product sold (exclusive of depreciation and amortization) — Third parties	15,560	23,951
	16,381	25,769
Direct operating expenses (exclusive of depreciation and amortization) — Affiliates	852	1,027
Direct operating expenses (exclusive of depreciation and amortization) — Third parties	22,838	23,387
	23,690	24,414
Selling, general and administrative expenses (exclusive of depreciation and amortization) — Affiliates	3,462	3,267
Selling, general and administrative expenses (exclusive of depreciation and amortization) — Third parties	2,930	1,316
	6,392	4,583
Depreciation and amortization	6,976	6,819
Total operating costs and expenses	53,439	61,585
Operating income	19,653	31,465
Other income (expense):		
Interest expense and other financing costs	(1,635)	(1,697)
Interest income	2	12
Other income, net	23	6
Total other income (expense)	(1,610)	(1,679)
Income before income tax expense	18,043	29,786
Income tax expense	1	12
Net income	$18,042	$29,774
Net income per common unit – basic	$0.25	$0.41
Net income per common unit – diluted	$0.25	$0.41
Weighted-average common units outstanding:		
Basic	73,128	73,123
Diluted	73,128	73,131

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2016	2015
	(unaudited) (in thousands)	
Net income	$18,042	$29,774
Other comprehensive income (loss):		
Change in fair value of interest rate swaps	—	(72)
Net loss reclassified into income on settlement of interest rate swaps	119	267
Other comprehensive income	119	195
Total comprehensive income	$18,161	$29,969

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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, 2015	73,128,269	$385,670	$ 1	$ (119)	$385,552
Cash distributions to common unitholders – Affiliates	—	(10,509)	—	—	(10,509)
Cash distributions to common unitholders – Non-affiliates	—	(9,236)	—	—	(9,236)
Net income	—	18,042	—	—	18,042
Other comprehensive income	—	—	—	119	119
Balance at March 31, 2016	73,128,269	$383,967	$ 1	$ —	$383,968

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2016	2015
	(unaudited) (in thousands)	
Cash flows from operating activities:		
Net income	$18,042	$29,774
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,976	6,819
Allowance for doubtful accounts	231	(8)
Amortization of deferred financing costs	241	240
Share-based compensation – Affiliates	495	679
Share-based compensation	153	173
Change in assets and liabilities:		
Accounts receivable	(2,110)	(2,664)
Inventories	4,937	1,743
Prepaid expenses and other current assets	722	(350)
Other long-term assets	(131)	93
Accounts payable	648	975
Deferred revenue	(2,291)	(7,271)
Accrued expenses and other current liabilities	(4,273)	(4,844)
Other long-term liabilities	—	6
Net cash provided by operating activities	23,640	25,365
Cash flows from investing activities:		
Capital expenditures	(1,733)	(2,661)
Net cash used in investing activities	(1,733)	(2,661)
Cash flows from financing activities:		
Payment of financing costs	(150)	—
Cash distributions to common unitholders – Affiliates	(10,509)	(15,957)
Cash distributions to common unitholders – Non-affiliates	(9,236)	(14,023)
Net cash used in financing activities	(19,895)	(29,980)
Net decrease in cash and cash equivalents	2,012	(7,276)
Cash and cash equivalents, beginning of period	49,967	79,914
Cash and cash equivalents, end of period	$51,979	$72,638
Supplemental disclosures:		
Cash paid for income taxes, net	$—	$—
Cash paid for interest	$1,545	$1,477
Non-cash investing and financing activities:		
Construction in progress additions included in accounts payable	$767	$806
Change in accounts payable related to construction in progress	$(263)	$(260)

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.

As of March 31, 2016, public security holders held approximately 47% of the Partnership's outstanding limited partner interests and Coffeyville Resources, LLC ("CRLLC"), a wholly-owned subsidiary of CVR Energy, Inc. ("CVR Energy"), held approximately 53% of the Partnership's outstanding limited partner interests and 100% of the noneconomic general partner interest. As of March 31, 2016, Icahn Enterprises L.P. ("IEP") and its affiliates owned approximately 82% of the shares of CVR Energy.

East Dubuque Mergers

Immediately subsequent to the completion of the mergers on April 1, 2016, which are discussed in Note 4 ("Mergers"), CRLLC held approximately 34% of the Partnership's outstanding limited partner interests and 100% of the noneconomic general partner interest.

Management and Operations

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 14 ("Related Party Transactions") for further discussion.

(2) Basis of Presentation

The accompanying Partnership condensed consolidated financial statements include the accounts of CVR Partners and its subsidiaries. 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 Securities and Exchange Commission ("SEC"). These condensed consolidated financial statements should be read in conjunction with the December 31, 2015 audited consolidated financial statements and notes thereto included in CVR Partners' Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on February 18, 2016 (the "2015 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 14 ("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 March 31, 2016 and December 31, 2015, the results of operations and comprehensive income of the Partnership for the three months ended March 31, 2016 and 2015, the cash flows of the Partnership for the three months ended March 31, 2016 and 2015 and the changes in partners' capital for the Partnership for the three months ended March 31, 2016.

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, 2016 or any other interim or annual period.

(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. The standard was originally 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 15, 2015 and is required to be applied on a retrospective basis. Early adoption was permitted. The Partnership adopted ASU 2015-03 as of January 1, 2016 and applied the standard retrospectively to the Condensed Consolidated Balance Sheet. Refer to Note 11 ("Credit Facility") for further details.

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). The new standard revises accounting for operating leases by a lessee, among other changes, and requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the balance sheet. The standard is effective for the first interim and annual periods beginning after December 15, 2018, with early adoption permitted. At adoption, ASU 2016-02 will be applied using a modified retrospective approach. The Partnership is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

(4) Mergers

On April 1, 2016, the Partnership completed the previously announced transactions contemplated by the Agreement and Plan of Merger, dated as of August 9, 2015 (the "Merger Agreement"), by and among the Partnership, Lux Merger Sub 1 LLC, a Delaware limited liability company and wholly-owned subsidiary of the Partnership ("Merger

Sub 1"), Lux Merger Sub 2 LLC, a Delaware limited liability company and wholly-owned subsidiary of the Partnership ("Merger Sub 2"), East Dubuque Nitrogen Partners, L.P. (formerly known as Rentech Nitrogen Partners, L.P.), a Delaware limited partnership ("East Dubuque"), and East Dubuque Nitrogen GP, LLC (formerly known as Rentech Nitrogen GP, LLC), a Delaware limited liability company ("East Dubuque GP"). Pursuant to the terms and conditions set forth in the Merger Agreement, (i) Merger Sub 1 merged with and into East Dubuque GP, the general partner of East Dubuque, with East Dubuque GP continuing as the surviving entity as a wholly-owned subsidiary of the Partnership, and (ii) Merger Sub 2 merged with and into East Dubuque, with East Dubuque continuing as the surviving entity as a subsidiary of the Partnership (collectively, the "mergers").

East Dubuque was required to sell or spin off its facility located in Pasadena, Texas (the "Pasadena Facility") as a condition to closing of the mergers. On March 14, 2016, East Dubuque completed the sale of 100% of the issued and outstanding membership interests of its subsidiary that owned the Pasadena Facility to a third party. Holders of common units representing limited partner interests in East Dubuque ("East Dubuque common units") of record as of March 28, 2016 received consideration for the Pasadena Facility and may receive additional consideration in the future according to the terms of the purchase agreement. The Partnership will not receive any consideration relating to the sale of the Pasadena Facility.

East Dubuque owns a facility located in East Dubuque, Illinois, which produces primarily ammonia and UAN using natural gas as the facility's primary feedstock. The primary reasons for the mergers were to expand the Partnership's geographical footprint, diversify its raw material feedstocks, widen its customer reach and increase its potential for cash-flow generation. In accordance with the FASB’s Accounting Standards Codification ("ASC") Topic 805 — Business Combinations, the Partnership will account for the mergers as an acquisition of a business with CVR Partners as the acquirer. The initial accounting for the business combination is incomplete due to the short period of time since the closing. The Partnership is in the process of determining the allocation of the acquisition date fair values of assets and liabilities assumed. The Partnership expects to include the required disclosures in its second quarter Form 10-Q condensed consolidated financial statements.

Merger Consideration

Under the terms of the Merger Agreement, holders of East Dubuque common units eligible to receive consideration received 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 East Dubuque common unit. Pursuant to the Merger Agreement, CVR Partners issued approximately 40.2 million CVR Partners common units and paid approximately $99.2 million in cash consideration to East Dubuque common unitholders and certain holders of East Dubuque phantom units discussed below.

Phantom units granted and outstanding under East Dubuque’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 were 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 did not continue in employment of a CVR Partners-affiliated entity, or (ii) a director of East Dubuque GP, upon closing of the mergers, vested in full and the holders thereof received the merger consideration.

In March 2016, CVR Energy purchased 400,000 East Dubuque common units, representing approximately 1% of the outstanding East Dubuque limited partner interests. Pursuant to the Merger Agreement, any East Dubuque common units held of record by an affiliate of CVR Partners and designated in writing as parent affiliate units remained outstanding as East Dubuque common units following the effective time of the mergers and such affiliate did not receive any merger consideration for those units. As such, CVR Energy did not receive merger consideration for these designated East Dubuque common units.

A summary of the total purchase price is as follows:

	Purchase Price (in thousands)
Fair value of CVR Partners common units issued, as of the close of the merger	$ 335,693
Cash payment to East Dubuque common unitholders and certain phantom unit holders	99,229

Fair value of consideration transferred	434,922
Fair value of noncontrolling interest for parent affiliate units (1)	4,564
Total purchase price consideration to be allocated	$ 439,486

12

The fair value of the unit consideration was determined as follows:

	Fair Value of Unit Consideration (in thousands, except per unit data)
East Dubuque common units outstanding, as of the close of the merger	38,985
Less: Non-controlling interest from parent affiliate units (1)	400
Net units subject to merger consideration	38,585
Unit consideration per East Dubuque common unit	1.04
Number of CVR Partners common units to be issued for merger consideration	40,129
Number of CVR Partners common units to be issued for East Dubuque phantom units issued to non-continuing employees and East Dubuque board members (2)	26
Total number of CVR Partners units to be issued	40,155
Fair value per CVR Partners common unit, as of the close of the merger	$ 8.36
Fair value of CVR Partners common units issued	$ 335,693

(1) See above for discussion of parent affiliate units.

(2) As discussed above, each phantom unit granted and outstanding and held by (i) an employee who did not continue in the employment of a CVR Partners-affiliated entity, or (ii) a director of East Dubuque GP, upon closing of the mergers, vested in full and the holders thereof received the merger consideration.

Merger-Related Indebtedness

East Dubuque’s debt arrangements that remained in place after the closing date of the mergers included $320.0 million of its 6.5% second lien senior secured notes due 2021 (the "Second Lien Notes"). East Dubuque is required under the change of control provision within the indenture governing the Second Lien Notes to offer to purchase, within 90 days of the mergers, all outstanding Second Lien Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon to the date of purchase. In connection with the closing of the mergers, the Partnership entered into a new senior term loan facility, the proceeds of which may be used by the Partnership or East Dubuque to fund this offer, as discussed further in Note 16 ("Subsequent Events").

Immediately prior to the mergers, East Dubuque had outstanding balances under a credit agreement with Wells Fargo Bank, National Association, as successor-in-interest by assignment from General Electric Company, as administrative agent (the "Wells Fargo Credit Agreement"). The Wells Fargo Credit Agreement consisted of a $50.0 million senior secured revolving credit facility with a $10.0 million letter of credit sublimit. In connection with the closing of the mergers, the Partnership entered into a new senior term loan facility, the proceeds of which were used in part to repay the $49.4 million outstanding balance, accrued interest and fees under the Wells Fargo Credit Agreement and the Wells Fargo Credit Agreement was canceled, as discussed further in Note 16 ("Subsequent Events").

Expenses Associated with the Mergers

During the three months ended March 31, 2016, the Partnership incurred $1.2 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).

(5) 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. Allocated expense amounts related to plans for which the Partnership is not responsible for payment are immaterial and 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 March 31, 2016, performance units and an immaterial amount of restricted stock units remain outstanding 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 the Partnership) employees, officers, consultants and directors.

Performance Unit Awards

In December 2015, CVR Energy entered into a performance unit award agreement (the "2015 Performance Unit Award Agreement") with its Chief Executive Officer. Compensation cost for the 2015 Performance Unit Award Agreement will be recognized over the performance cycle from January 1, 2016 to December 31, 2016. The performance unit award represents the right to receive, upon vesting, a cash payment equal to a defined threshold in accordance with the award agreement, multiplied by a performance factor that is based upon the achievement of certain operating objectives. The Partnership will be responsible for reimbursing CVR Energy for its allocated portion of the performance unit award. Assuming a target performance threshold and that the allocation of costs from CVR Energy remains consistent with the allocation percentages in place at March 31, 2016, there was approximately $0.3 million of total unrecognized compensation cost related to the 2015 Performance Unit Award Agreement to be recognized over a weighted-average period of approximately 0.8 years. Compensation expense recorded for the three months ended March 31, 2016 related to the awards was approximately $0.1 million. The Partnership will be responsible for reimbursing CVR Energy for its allocated portion of the awards. As of March 31, 2016, the Partnership had a liability of $0.1 million, for its allocated portion of the 2015 Performance Unit Award Agreement, which is recorded in accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheet.

Incentive Unit Awards – CVR Energy

CVR Energy has 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 March 31, 2016, 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 1.5 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 March 31, 2016, compensation expense has been allocated to the Partnership. Compensation expense recorded for the three months ended March 31, 2016 related to the awards was nominal. Compensation expense recorded for the three months ended March 31, 2015 related to the awards was approximately $0.2 million. The Partnership will be responsible for reimbursing CVR Energy for its allocated portion of the awards.

As of both March 31, 2016 and December 31, 2015, the Partnership had a liability of $0.5 million 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, each in respect of common units. Individuals 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) certain CVR Partners' parent's employees, consultants and directors who perform services for the benefit of the Partnership.

Through the CVR Partners LTIP, phantom units awards outstanding include awards granted to employees of both the Partnership and the general partner. Phantom unit awards made to employees of the general partner are considered non-employee equity based-awards. The phantom unit awards outstanding vest over a three-year period and are required to be remeasured each reporting period until they vest. The maximum number of common units issuable under the CVR Partners LTIP is 5,000,000. As of March 31, 2016, there were 4,820,215 common units available for issuance under the CVR Partners LTIP. As all phantom unit awards discussed below are cash settled awards, they do not reduce the number of common units available for issuance.

Certain Units and Phantom Units Awards

Awards of phantom units and distribution equivalent rights have been 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 three months ended March 31, 2016 is presented below:

	Phantom Units	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2016	391,903	$ 8.71
Granted	3,475	7.77
Vested	—	—
Forfeited	—	—
Non-vested at March 31, 2016	395,378	$ 8.70

Unrecognized compensation expense associated with the unvested phantom units at March 31, 2016 was approximately $2.5 million and is expected to be recognized over a weighted average period of 1.5 years.

Compensation expense recorded for the three months ended March 31, 2016 and 2015 related to the awards under the CVR Partners LTIP was approximately $0.5 million and $0.6 million, respectively. Compensation expense related to the awards to employees of the Partnership and its subsidiaries under the CVR Partners LTIP has been recorded in selling, general and administrative expenses (exclusive of depreciation and amortization) - third parties and direct operating expenses (exclusive of depreciation and amortization) - third parties. Compensation expense related to the awards issued to employees of the general partner under the CVR Partners LTIP has been recorded in selling, general and administrative expenses (exclusive of depreciation and amortization) - affiliates and direct operating expenses (exclusive of depreciation and amortization) - affiliates. As of March 31, 2016 and December 31, 2015 the Partnership had a liability of $1.2 million and $0.7 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.

Table of Contents
CVR PARTNERS, LP AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 2016
(unaudited)

Performance-Based Phantom Unit Award

In May 2014, the Partnership entered into a Phantom Unit Agreement with Mark A. 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. Compensation expense recorded for the three months ended March 31, 2016 and 2015 related to the awards was nominal. Based on current estimates of performance thresholds for the remaining performance cycles, unrecognized compensation expense and the liability associated with the unvested phantom units as of March 31, 2016 and December 31, 2015 were also nominal.

(6) Inventories

Inventories consisted of the following:

	March 31, 2016	December 31, 2015
	(in thousands)	
Finished goods	$5,494	$ 9,589
Raw materials and precious metals	8,101	9,055
Parts and supplies	18,997	18,885
Total inventories	$32,592	$ 37,529

(7) Property, Plant and Equipment

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

	March 31, 2016	December 31, 2015
	(in thousands)	
Land and improvements	$5,441	$ 5,441
Buildings and improvements	3,235	3,049
Machinery and equipment	575,636	574,326
Automotive equipment	483	448
Furniture and fixtures	869	918
Railcars	16,315	16,315
Construction in progress	1,575	1,641
	$603,554	$ 602,138
Less: Accumulated depreciation	215,919	209,005
Total property, plant and equipment, net	$387,635	