

CVR PARTNERS, LP
Form 10-Q
April 25, 2019
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2019

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 (I.R.S. Employer
incorporation or organization) 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)

Securities registered pursuant to Section 12(b) of the Act:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-Accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: CVR PARTNERS, LP - Form 10-Q

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

There were 113,282,973 common units representing limited partner interests of CVR partners (“common units”) outstanding at April 23, 2019.

March 31, 2019 | 1

Table of Contents

TABLE OF CONTENTS
 CVR PARTNERS
 Quarterly Report on Form 10-Q

<u>PART I.</u> Financial Information	<u>PART II.</u> Other Information
<u>Item 1.</u> Financial Statements	4
<u>Condensed Consolidated Balance Sheets - March 31, 2019 (unaudited) and December 31, 2018</u>	4
<u>Condensed Consolidated Statements of Operations - Three Months Ended March 31, 2019 and 2018 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows - Three Months Ended March 31, 2019 and 2018 (unaudited)</u>	6
<u>Notes to the Condensed Consolidated Financial Statements - March 31, 2019 (unaudited)</u>	7
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4.</u> <u>Controls and Procedures</u>	25
	Item 1. <u>Legal Proceedings</u> 26
	Item 1A. <u>Risk Factors</u> 26
	Item 5. <u>Other Information</u> 26
	Item 6. <u>Exhibits</u> 27
	Signatures 28

This Quarterly Report on Form 10-Q (including documents incorporated by reference herein) contains statements with respect to our expectations or beliefs as to future events. These types of statements are “forward-looking” and subject to uncertainties. See “Important Information Regarding Forward-Looking Statements” in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2.

March 31, 2019 | 2

Table of Contents

Important Information Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q (this “Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including, but not limited to, those under Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical fact, including without limitation, statements regarding future operations, financial position, estimated revenues and losses, growth, capital projects, impacts of legal proceedings, projected costs, prospects, plans and objectives are forward-looking statements. The words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “may,” “continue,” “potential,” “project,” and similar terms and phrases are intended to identify forward-looking statements. Although we believe our assumptions concerning future events are reasonable, a number of risks, uncertainties and other factors could cause actual results and trends to differ materially from those projected or forward-looking, including but not limited to:

- our ability to make cash distributions on our common units;
- the ability of our general partner to modify or revoke our distribution policy at any time;
- volatile margins in the nitrogen fertilizer industry and exposure to risks associated with the pricing and availability of feedstocks, pet coke, utilities, urea ammonium nitrate (“UAN”), ammonia and other products;
- the availability of adequate cash, credit and other sources of liquidity including volatility in the capital and credit markets and changes to our capital requirements;
- changes in the expected value of, benefits derived from, and our ability to successfully implement, business strategies, transactions and capital projects;
- changes in (and in the application of) local, state and federal laws, rules, regulations and policies, including with respect to environmental matters (including climate change), health and safety, exports, transportation (including pipeline and trucking transportation), the end-use and application of fertilizers and taxes (including the tax status of CVR Partners);
- changes in economic conditions impacting our business and the business of our suppliers, customers, counterparties and lenders;
- interruption of or changes in the cost, availability or regulation of pipelines, vessels, trucks and other means of transporting feedstocks, pet coke, UAN, ammonia and other products relating to our business;
- changes in competition in the nitrogen fertilizer business including to our competitive advantages;
- the cyclical and/or seasonal nature of the nitrogen fertilizer business;
- weather conditions, fires, tornadoes, floods or other natural disasters affecting our operations or the areas in which our feedstocks and fertilizers are marketed or sold;
- risks associated with governmental policies affecting the agricultural industry;
- direct or indirect effects from actual or threatened terrorist incidents, security or cyber-security breaches or acts of war;
- dependence on significant customers and suppliers and the creditworthiness and performance by counterparties;
- our ability to license the technology used in or secure permits required for our operations;
- adverse rulings, judgments or settlements in litigation or other legal or tax matters, including unexpected environmental remediation costs in excess of any reserves;
- competition with CVR Energy and its affiliates, control of our general partner by CVR Energy and our reliance on CVR Energy’s senior management team including conflicts of interest they face operating each of CVR Partners and CVR Energy;
- operating hazards and interruptions or production declines, including unscheduled maintenance or downtime and the availability and recoverability of adequate insurance coverage; and
- the factors described in greater detail under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 and our other filings with the SEC.

All forward-looking statements included in this Report are based on information available to us on the date of this Report. We undertake no obligation to revise or update any forward-looking statements as a result of new information, future events or otherwise.

March 31, 2019 | 3

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CVR PARTNERS, LP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

(in thousands)	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$96,606	\$ 61,776
Accounts receivable, net of allowance for doubtful accounts	16,922	61,662
Inventories	72,479	63,554
Prepaid expenses and other current assets	5,673	6,989
Total current assets	191,680	193,981
Property, plant, and equipment, net of accumulated depreciation	997,103	1,015,240
Goodwill	40,969	40,969
Other long-term assets	17,238	4,198
Total assets	\$1,246,990	\$ 1,254,388
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	\$18,852	\$ 26,789
Accounts payable to affiliates	3,697	2,976
Deferred revenue	65,366	68,804
Accrued expenses and other current liabilities	36,423	24,066
Total current liabilities	124,338	122,635
Long-term liabilities:		
Long-term debt, net of current portion	629,812	628,989
Other long-term liabilities	12,687	2,938
Total long-term liabilities	642,499	631,927
Commitments and contingencies: (see Note 12)		
Partners' capital:		
Common unitholders, 113,282,973 units issued and outstanding at March 31, 2019 and December 31, 2018	480,152	499,825
General partner interest	1	1
Total partners' capital	480,153	499,826
Total liabilities and partners' capital	\$1,246,990	\$ 1,254,388

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (unaudited)

(in thousands, except per common unit)	Three Months Ended	
	March 31,	
	2019	2018
Net sales	\$91,873	\$79,859
Operating costs and expenses:		
Cost of materials and other (exclusive of depreciation and amortization)	23,730	22,469
Direct operating expenses (exclusive of depreciation and amortization)	34,820	38,669
Depreciation and amortization	16,584	16,426
Cost of sales	75,134	77,564
Selling, general and administrative expenses	6,846	5,662
Loss on asset disposals	454	54
Operating income (loss)	9,439	(3,421)
Interest expense, net	(15,650)	(15,711)
Other income, net	20	44
Net loss before income taxes	(6,191)	(19,088)
Income tax benefit	(112)	(37)
Net loss	\$(6,079)	\$(19,051)
Net loss per common unit – basic and diluted	\$(0.05)	\$(0.17)
Weighted-average common units outstanding:		
Basic and Diluted	\$ 113,283	113,283

The accompanying notes are an integral part of these condensed consolidated financial statements.

March 31, 2019 | 5

Table of Contents

CVR PARTNERS, LP AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited)

(in thousands)	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$(6,079)	\$(19,051)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,584	16,426
Share-based compensation	1,108	280
Other adjustments	1,212	885
Change in assets and liabilities:		
Current assets and liabilities	39,010	15,683
Non-current assets and liabilities	89	263
Net cash provided by operating activities	51,924	14,486
Cash flows from investing activities:		
Capital expenditures	(3,500)	(2,720)
Proceeds from sale of assets	—	172
Net cash used in investing activities	(3,500)	(2,548)
Cash flows from financing activities:		
Cash distributions to common unitholders - Affiliates	(4,670)	—
Cash distributions to common unitholders - Non-affiliates	(8,924)	—
Net cash used in financing activities	(13,594)	—
Net increase in cash and cash equivalents	34,830	11,938
Cash and cash equivalents, beginning of period	61,776	49,173
Cash and cash equivalents, end of period	\$96,606	\$61,111

The accompanying notes are an integral part of these condensed consolidated financial statements.

March 31, 2019 | 6

Table of Contents

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) Organization and Nature of Business

CVR Partners, LP (referred to as “CVR Partners” or the “Partnership”) is a Delaware limited partnership formed by CVR Energy, Inc. (together with its subsidiaries, but excluding the Partnership and its subsidiaries, “CVR Energy”) to own, operate and grow its nitrogen fertilizer business. The Partnership produces nitrogen fertilizer products at two manufacturing facilities, which are located in Coffeyville, Kansas (the “Coffeyville Facility”) and East Dubuque, Illinois (the “East Dubuque Facility”). As used in these financial statements, references to CVR Partners and the Partnership may refer to consolidated subsidiaries of CVR Partners or one or both of the facilities, as the context may require.

As of March 31, 2019, public security holders held approximately 66% of the Partnership’s outstanding limited partner interests and Coffeyville Resources, LLC (“CRLLC”), a wholly-owned subsidiary of CVR Energy, held approximately 34% of the Partnership’s outstanding limited partner interests and 100% of the general partner interest held by CVR GP, LLC (“CVR GP” or the “general partner”). As of March 31, 2019, Icahn Enterprises L.P. (“IEP”) and its affiliates owned approximately 71% of the shares of CVR Energy.

Management and Operations

The Partnership, including CVR GP, is party to a number of agreements with CVR Energy and its subsidiaries to manage certain business relationships between the Partnership and the other parties thereto. The various rights and responsibilities of the Partnership, and its partners, are set forth in the Partnership’s limited partnership agreement. CVR GP manages and operates the Partnership via 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. See Note 14 (“Related Party Transactions”) for further discussion. Common unitholders have limited voting rights on matters affecting the Partnership and have no right to elect the general partner’s directors on an annual or continuing basis.

(2) Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). These condensed consolidated financial statements should be read in conjunction with the December 31, 2018 audited consolidated financial statements and notes thereto included in CVR Partners’ Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on February 21, 2019 (the “2018 Form 10-K”).

The accompanying condensed consolidated financial statements reflect all adjustments that are necessary to fairly present the financial position of the Partnership as of March 31, 2019 and December 31, 2018, the results of operations of the Partnership for the three month periods ended March 31, 2019 and 2018 and the cash flows of the Partnership for the three month periods ended March 31, 2019 and 2018. Such adjustments are of a normal recurring nature, unless otherwise disclosed.

The preparation of the 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 and 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, 2019 or any other interim or annual period.

(3) Recent Accounting Pronouncements

Recent Accounting Pronouncement - Adoption of New Lease Standard

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"), creating a new topic, FASB ASC Topic 842, "Leases" ("Topic 842"), which supersedes lease requirements in FASB ASC Topic 840, "Leases." The new standard revises accounting for operating leases by a lessee, among other changes, and requires a lessee to recognize a liability related to future lease payments and a right-of-use ("ROU") asset representing its right to use the underlying asset for the lease term on the balance sheet. The ROU asset is classified as Other long-term assets on the condensed consolidated balance sheet. The

March 31, 2019 | 7

Table of Contents

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

current and long-term lease liabilities are classified as Accrued expenses and other current liabilities and Other long-term liabilities, respectively on the condensed consolidated balance sheet.

We adopted Topic 842 as of January 1, 2019, electing the option to apply the transition provisions at the adoption date instead of the earliest comparative period presented in the financial statements. In connection with the adoption of Topic 842, we made the following elections:

• Under the short-term lease exception provided for in Topic 842, only ROU assets and the related lease liabilities for leases with an initial term greater than one year were recognized;

• The accounting treatment for existing land easements was carried forward;

• Lease and non-lease components were not and will not be bifurcated for all of the Partnership's asset groups; and

• The portfolio approach was and will be used in the selection of the discount rate used to calculate minimum lease payments and the related ROU asset and operating lease liability amounts.

The adoption of Topic 842 on January 1, 2019 incrementally impacted the Partnership's condensed consolidated balance sheet as of that date. The following presents the financial statement line items impacted by the Partnership's Topic 842 adoption as of the respective dates.

Effect of Topic 842 Adoption on Condensed Consolidated Balance Sheet as of January 1, 2019

(in thousands)	December 31, 2018 As Stated (Unaudited)	Effect of Adoption of Topic 842 - Leases (Unaudited)	January 1, 2019 As Adjusted
Current assets:			
Prepaid expenses and other current assets	\$6,989	\$ (2,650)	(1) \$4,339
Total currents assets	193,981	(2,650)	191,331
Other long-term assets	4,198	16,923	(2) 21,121
Total assets	\$1,254,388	\$ 14,273	\$1,268,661
Current liabilities:			
Accrued expenses and other current liabilities	\$24,066	\$ 3,462	(3) \$27,528
Total current liabilities	122,635	3,462	126,097
Long-term liabilities:			
Long term liabilities:			
Other long-term liabilities	2,938	10,811	(3) 13,749
Total long-term liabilities	631,927	10,811	642,738
Equity:			
Total liabilities and partners' capital	\$1,254,388	\$ 14,273	\$1,268,661

(1) Represents lease prepayments reclassified to right-of-use assets.

(2) Represents recognition of initial right-of-use assets for operating leases, including the reclassification of certain lease prepayments as noted above.

(3) Represents the initial recognition of lease liabilities.

New Accounting Standards Issued But Not Yet Implemented

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820). The ASU eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. Certain disclosures are required to be applied on a retrospective basis and others on a prospective basis. This ASU is effective for the Partnership beginning January 1, 2020, with early adoption permitted. The Partnership is evaluating the effect of adopting this ASU, but does not expect adoption will have a material impact on the Partnership's disclosures.

March 31, 2019 | 8

Table of ContentsNOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(4) Inventories

Inventories consisted of the following:

(in thousands)	March 31, December 31,	
	2019	2018
Finished goods	\$ 34,315	\$ 25,136
Raw materials	317	439
Parts, supplies and other	37,847	37,979
Total inventories	\$ 72,479	\$ 63,554

(5) Property, Plant and Equipment

Property, plant and equipment consisted of the following:

(in thousands)	March 31,	December 31,
	2019	2018
Machinery and equipment	\$1,369,904	\$ 1,362,965
Automotive equipment	16,773	16,860
Buildings and improvements	16,707	17,116
Land and improvements	13,751	13,250
Construction in progress	9,812	15,802
Other	2,074	1,990
	1,429,021	1,427,983
Less: Accumulated depreciation	431,918	412,743
Total property, plant and equipment, net	\$997,103	\$ 1,015,240

(6) Leases

Lease Overview

We lease railcars and certain facilities to support the Partnership's operations. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 20 years or more. The exercise of lease renewal options is at our sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Certain of our lease agreements include rental payments adjusted periodically for factors such as inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Additionally, we do not have any material lessor or sub-leasing arrangements.

Effect of Initial Adoption of New Lease Standard - January 1, 2019

ROU Assets. As of January 1, 2019, upon initial recognition, our ROU assets for operating and finance leases were comprised of the following:

(in thousands)	January 1,
	2019

	(initial recognition)	
Railcar leases		\$ 14,255
Real Estate and other leases	18	
Total ROU assets		\$ 14,273

March 31, 2019 | 9

Table of Contents

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Lease Liabilities. As of January 1, 2019, upon initial recognition, our lease liabilities for operating and finance leases were comprised of the following:

(in thousands)	Consolidated Balance Sheet Classification	January 1, 2019 (initial recognition)
Current liabilities:		
Operating leases	Accrued expense and other current liabilities	\$ 3,462
Long-term liabilities:		
Operating leases	Other long-term liabilities	10,811
Total lease liabilities		\$ 14,273

Balance Sheet Summary for the Period Ended March 31, 2019

The following tables summarize the ROU asset and lease liability balances for the Partnership's operating and finance leases at March 31, 2019:

(in thousands)	March 31, 2019
----------------	-------------------

Operating Leases:

ROU asset, net

Railcars \$ 13,328

Real estate and other 2,496

Lease liability

Railcars \$ 13,409

Real estate and other 15

(in thousands)	March 31, 2019
----------------	-------------------

Financing Leases:

ROU asset, net

Real estate and other \$ 111

Lease liability

Real estate and other \$ 155

Lease Expense Summary for the Three-Month Period Ended March 31, 2019

We recognize lease expense for these leases on a straight-line basis over the lease term. For the three months ended March 31, 2019, we recognized net lease expense comprised of the following components:

(in thousands)	March 31, 2019
Operating lease expense	\$ 1,023
Financing lease expense:	
Amortization of ROU asset	\$ 105
Interest expense on lease liability	6

Short-term lease expense, recognized within direct operating expenses, was \$0.7 million for the three-month period ended March 31, 2019.

March 31, 2019 | 10

Table of ContentsNOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Lease Terms and Discount Rates

The following outlines the remaining lease terms and discount rates used in the measurement of the Partnership's ROU assets and liabilities:

	March 31, 2019	January 1, 2019 (initial recognition)		
Weighted-average remaining lease term (years)				
Operating Leases	4.1	4.3		
Finance Leases	0.4	0.5		
Weighted-average discount rate				
Operating Leases	5.1	5.1	%	%
Finance Leases	11.0	8.0	%	%

Maturities of Lease Liabilities

The following summarizes the remaining minimum lease payments through maturity of the Partnership's ROU assets and liabilities at March 31, 2019:

(in thousands)	Operating Leases	Financing Leases
Remainder of 2019	\$ 3,410	\$ 155
2020	3,602	—
2021	3,430	—
2022	2,990	—
2023	1,133	—
Thereafter	648	—
Total lease payments	15,213	\$ 155
Less: imputed interest (1,789)	—	—
Total lease liability	\$ 13,424	\$ 155

(7) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are as follows:

(in thousands)	March 31, 2019	December 31, 2018
Share-based compensation	\$ 1,172	\$ 2,667
Personnel accruals	4,136	7,993
Accrued interest	17,643	2,516
Other accrued expenses and liabilities	13,472	10,890
Total accrued expenses and other current liabilities	\$ 36,423	\$ 24,066

Accrued expenses and other current liabilities include amounts owed by the Partnership to CVR Energy and affiliates of \$3.8 million and \$3.5 million at March 31, 2019 and December 31, 2018, respectively. Refer to Note 14 ("Related Party Transactions") for additional discussion.

March 31, 2019 | 11

Table of ContentsNOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(8) Debt

Long-term debt consists of the following:

(in thousands)	March 31, 2019	December 31, 2018
9.25% senior secured notes, due 2023 (1)	\$645,000	\$ 645,000
6.50% notes, due 2021	2,240	2,240
Unamortized discount and debt issuance costs	(17,428)	(18,251)
Total long-term debt, net of current portion	\$629,812	\$ 628,989

(1) The estimated fair value of total long-term debt outstanding was approximately \$675.6 million and \$670.8 million as of March 31, 2019 and December 31, 2018, respectively.

Credit Facility

(in thousands)	Total Capacity	Amount Borrowed as of March 31, 2019	Outstanding Letters of Credit	Available Capacity as of March 31, 2019	Maturity Date
Asset Based Credit Facility (2)	\$ 50,000	\$ —	—	—\$ 50,000	September 30, 2021

At the option of the borrowers, loans under the asset based credit facility initially bear interest at an annual rate (2) equal to (i) 2.00% plus LIBOR or (ii) 1.00% plus a base rate, subject to a 0.50% step-down based on the previous quarter's excess availability.

Covenant Compliance

The Partnership is in compliance with all covenants of the asset based credit facility and the 9.25% senior secured notes and 6.50% notes as of March 31, 2019.

(9) Partners' Capital

The following table summarizes the partners' capital and general partners' interest for the three months ended March 31, 2019.

(in thousands, except unit data)	Common Units		General Partner	Total
	Issued	Amount	Interest	
Balance at December 31, 2018	113,282,973	\$499,825	\$ 1	\$499,826
Cash distributions to common unitholders - Affiliates	—	(4,670)	—	(4,670)
Cash distributions to common unitholders - Non-affiliates	—	(8,924)	—	(8,924)
Net loss	—	(6,079)	—	(6,079)
Balance at March 31, 2019	113,282,973	\$480,152	\$ 1	\$480,153

Common Units

Total

Edgar Filing: CVR PARTNERS, LP - Form 10-Q

(in thousands, except unit data)	Issued	Amount	General Partner Interest	
Balance at December 31, 2017	113,282,973	\$549,852	\$ 1	\$549,853
Net loss	—	(19,051)	—	(19,051)
Balance at March 31, 2018	113,282,973	\$530,801	\$ 1	\$530,802

March 31, 2019 | 12

Table of Contents

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Distributions

For the fourth quarter of 2018, the Partnership declared a cash distribution of \$0.12 per common unit, or \$13.6 million, which was paid on March 11, 2019.

On April 24, 2019, the Board of Directors of the general partner of the Partnership declared a cash distribution for the first quarter of 2019 in the amount of \$0.07 per common unit, or approximately \$8 million in aggregate. The cash distribution will be paid on May 13, 2019 to the Partnership's unitholders of record at the close of business on May 6, 2019.

(10) Revenue

The following table presents the Partnership's revenue disaggregated by product:

(in thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Ammonia	\$13,352	\$11,597
UAN	64,064	52,763
Urea products	4,671	4,911
Fertilizer sales, exclusive of freight and other	82,087	69,271
Freight revenue	8,018	8,739
Other revenue	1,768	1,849
Total net sales	\$91,873	\$79,859

The Partnership sells its products on a wholesale basis under a contract or by purchase order. The Partnership's contracts with customers, including purchase orders, generally contain fixed pricing and most have terms of less than one year. The Partnership recognizes revenue at the point in time at which the customer obtains control of the product, which is generally upon delivery and acceptance by the customer. The customer acceptance point is stated in the contract and may be at one of the Partnership's manufacturing facilities, at one of the Partnership's off-site loading facilities or at the customer's designated facility. Freight revenue recognized by the Partnership represents the pass-through finished goods delivery costs incurred prior to customer acceptance and is reimbursed by customers. An offsetting expense for freight is included in cost of materials and other. Qualifying taxes collected from customers and remitted to governmental authorities are not included in reported revenues.

Depending on the product sold and the type of contract, payments from customers are generally either due prior to delivery or within 15 to 30 days of product delivery.

The Partnership generally provides no warranty other than the implicit promise that goods delivered are free of liens and encumbrances and meet the agreed upon specifications. Product returns are rare, and as such, the Partnership does not record a specific warranty reserve or consider activities related to such warranty, if any, to be a separate performance obligation.

The Partnership has an immaterial amount of variable consideration for contracts with an original duration of less than a year. A small portion of the Partnership's revenue includes contracts extending beyond one year, some of which contain variable pricing in which the majority of the variability is attributed to the market-based pricing. The Partnership's contracts do not contain a significant financing component.

The Partnership has an immaterial amount of fee-based revenue, included in other revenue in the table above, that is recognized based on the net amount of the proceeds received.

Transaction price allocated to remaining performance obligations

As of March 31, 2019, the Partnership had approximately \$9.6 million of remaining performance obligations for contracts with an original expected duration of more than one year. The Partnership expects to recognize approximately 39% of these performance obligations as revenue by the end of 2019, an additional 30% by 2020 and the remaining balance thereafter. The Partnership has elected to not disclose the amount of transaction price allocated to remaining performance obligations for contracts with an original expected duration of less than one year. The Partnership has elected to not disclose variable

March 31, 2019 | 13

Table of Contents

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

consideration allocated to wholly unsatisfied performance obligations that are based on market prices that have not yet been determined.

Contract balances

The Partnership's deferred revenue is a contract liability that primarily relates to fertilizer sales contracts requiring customer prepayment prior to product delivery to guarantee a price and supply of nitrogen fertilizer. Deferred revenue is recorded at the point in time in which a prepaid contract is legally enforceable and the associated right to consideration is unconditional prior to transferring product to the customer. An associated receivable is recorded for uncollected prepaid contract amounts. Contracts requiring prepayment are generally short-term in nature and, as discussed above, revenue is recognized at the point in time in which the customer obtains control of the product. At March 31, 2019, \$0.7 million of the deferred revenue balance pertained to prepaid contracts where the associated receivable was recognized as it had not yet been collected by the Partnership.

A summary of the deferred revenue activity during the three months ended March 31, 2019 is presented below:

(in thousands)	Three Months Ended March 31, 2019	
Balance at January 1, 2019	\$	68,804
Add:		
New prepay contracts entered into during the period (1)	9,621	
Less:		
Revenue recognized that was included in the contract liability balance at the beginning of the period	12,172	
Revenue recognized related to contracts entered into during the period	620	
Other changes	267	
Balance at March 31, 2019	\$	65,366

(1) Includes \$8.9 million where payment associated with prepaid contracts was collected.

(11) Share-Based Compensation

A summary of compensation expense during the three months ended March 31, 2019 and 2018 is presented below:

(in thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Phantom Units	\$ 790	\$ 406
Other Awards (1)	318	(126)
Total Share-Based Compensation Expense	\$ 1,108	\$ 280

Other awards include the allocation of compensation expense for certain employees of CVR Energy who perform (1) services for the Partnership under the services agreement with CVR Energy and participate in equity compensation plans of CVR Partners' affiliates.

(12) Commitments and Contingencies

Except as described below, there have been no material changes in the Partnership's commitments and contingencies during the three months ended March 31, 2019. In the ordinary course of business, the Partnership may become party to lawsuits, administrative proceedings and governmental investigations, including environmental, regulatory and other matters. The outcome of these matters cannot always be predicted accurately, but the Partnership accrues liabilities for these matters if the Partnership has determined that it is probable a loss has been incurred and the loss can be reasonably estimated. While it is not possible to predict the outcome of such proceedings, if one or more of them were decided against us, the Partnership believes there would be no material impact on its consolidated financial statements.

March 31, 2019 | 14

Table of ContentsNOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Litigation

In 2008, Coffeyville Resources Nitrogen Fertilizer LLC (“CRNF”), a subsidiary of CVR Partners LP, protested the reclassification and reassessment by Montgomery County, Kansas (the “County”) of CRNF’s nitrogen fertilizer plant following expiration of its ten year property tax abatement that expired on December 31, 2007, which reclassification and reassessment resulted in an increase in CRNF’s annual property tax expense in excess of \$10 million per year for the 2008 through 2012 tax years. Despite its protest, CRNF fully accrued and paid these property taxes. In February 2013, the County and CRNF agreed to a settlement for tax years 2009 through 2012 which resulted in decreased property taxes through 2017, leaving 2008 in dispute. In 2013, the Kansas Court of Appeals overturned an adverse ruling of the Kansas Board of Tax Appeals (“BOTA”) and instructed BOTA to classify each CRNF asset on an asset-by-asset basis. In March 2015, BOTA concluded its classification and determined a substantial majority of CRNF’s assets in dispute were personal property for the 2008 tax year. In September 2018, the Kansas Court of Appeals upheld BOTA’s property tax determinations in CRNF’s favor. In October 2018, the County petitioned the Kansas Supreme Court to review the Court of Appeals determination. Subsequent briefs were filed by CRNF and the County. In April 2019, CRNF and the County executed an agreement under which the County agreed to withdraw its petition to the Kansas Supreme Court and CRNF is expected to recover \$7.9 million through favorable property tax assessments from 2019 through 2028, subject to the terms of the settlement agreement.

(13) Supplemental Cash Flow Information

Cash flows related to interest and construction in process are as follows:

(in thousands)	Three Months Ended March 31,	
	2019	2018
Supplemental disclosures:		
Cash paid for interest	\$53	\$138
Non-cash investing activities:		
Construction in process additions included in accounts payable	\$1,252	\$2,203
Change in accounts payable related to construction in process additions	(668)	1,314

(14) Related Party Transactions

Activity associated with the Partnership’s related party arrangements for the three month periods ended March 31, 2019 and 2018 is summarized below.

Sales to related parties

(in thousands)	Three Months Ended March 31,	Related Party	2019	2018
Net Sales				
Feedstock and Shared Services Agreement CRRM (1)			\$2	\$35

March 31, 2019 | 15

Table of Contents

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Expenses from related parties

(in thousands)	Related Party	Three Months Ended March 31,	
		2019	2018
Cost of materials and other			
Coke Supply Agreement	CRRM (1)	\$ 1,321	\$ 359
Hydrogen Purchase and Sale Agreement	CRRM (1)	1,541	1,310
Direct operating expenses (exclusive of depreciation and amortization)			
Services Agreement	CVR Energy	\$ 940	\$ 616
Limited Partnership Agreement	CVR GP	174	663
Selling, general and administrative expenses			
Services Agreement	CVR Energy	\$ 4,038	\$ 2,863
Limited Partnership Agreement	CVR GP	915	1,330

(1)Coffeyville Resources Refining & Marketing, LLC, an indirect, wholly-owned subsidiary of CVR Energy

Amounts due to related parties

(in thousands)	Related Party	March 31, December 31,	
		2019	2018
Accounts payable			
Feedstock and Shared Services Agreement	CRRM (1)	\$ 1,102	\$ 1,280
Hydrogen Purchase and Sale Agreement and other	CRRM (1)	1,335	324
Limited Partnership Agreement	CVR GP	1,260	1,372
Accrued expenses and other current liabilities			
Limited Partnership Agreement	CVR GP	\$ 940	\$ 1,179
Services Agreement	CVR Energy	2,818	2,352

March 31, 2019 | 16

Table of Contents

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

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the unaudited condensed consolidated financial statements and related notes and with the statistical information and financial data appearing in this Report, as well as our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (“SEC”) on February 21, 2019 (the “2018 Form 10-K”). Results of operations and cash flows for the three months ended March 31, 2019 are not necessarily indicative of results to be attained for any other period. See “Important Information Regarding Forward looking statements”.

Partnership Overview

CVR Partners, LP (“CVR Partners” or the “Partnership”) is a Delaware limited partnership formed in 2011 by CVR Energy, Inc. (“CVR Energy”) to own, operate and grow our nitrogen fertilizer business. We produce and distribute nitrogen fertilizer products, which are used by farmers to improve the yield and quality of their crops. References to CVR Partners, the Partnership, “we”, “us”, and “our” may refer to consolidated subsidiaries of CVR Partners or one or both of the facilities, as the context may require. Additionally, as the context may require, references to CVR Energy may refer to CVR Energy, its consolidated subsidiaries which include its petroleum refining, marketing and logistics operations. Our principal products are ammonia and UAN. All of our products are sold on a wholesale basis. We produce nitrogen fertilizer products at two manufacturing facilities, which are located in Coffeyville, Kansas and East Dubuque, Illinois.

Strategy and Goals

Mission and Core Values

Our mission is to be a top tier North American nitrogen-based fertilizer company as measured by safe and reliable operations, superior performance and profitable growth. The foundation of how we operate is built on five core values:

Safety - We always put safety first. The protection of our employees, contractors and communities is paramount. We have an unwavering commitment to safety above all else. If it’s not safe, then we don’t do it.

Environment - We care for our environment. Complying with all regulations and minimizing any environmental impact from our operations is essential. We understand our obligation to the environment and that it’s our duty to protect it.

Integrity - We require high business ethics. We comply with the law and practice sound corporate governance. We only conduct business one way—the right way with integrity.

Corporate Citizenship - We are proud members of the communities where we operate. We are good neighbors and know that it’s a privilege we can’t take for granted. We seek to make a positive economic and social impact through our financial donations and the contributions of time, knowledge and talent of our employees to the places where we live and work.

Continuous Improvement - We believe in both individual and team success. We foster accountability under a performance-driven culture that supports creative thinking, teamwork and personal development so that employees can realize their maximum potential. We use defined work practices for consistency, efficiency and to create value across the organization.

Our core values are driven by our people, inform the way we do business each and every day and enhance our ability to accomplish our mission and related strategic objectives.

March 31, 2019 | 17

Table of Contents

Strategic Objectives

We have outlined the following strategic objectives to drive the accomplishment of our mission:

Safety - We aim to achieve continuous improvement in all environmental, health and safety areas through ensuring our people’s commitment to environmental, health and safety comes first, the refinement of existing policies, continuous training, and enhanced monitoring procedures.

Reliability - Our goal is to achieve industry-leading utilization rates at both of our facilities through safe and reliable operations. We are focusing on improvements in day-to-day plant operations, identifying alternative sources for plant inputs to reduce lost time due to third-party operational constraints, and optimizing our commercial and marketing functions to maintain plant operations at their highest level.

Market Capture - We continuously evaluate opportunities to improve the facilities’ realized pricing at the gate and reduce variable costs incurred in production to maximize our capture of market opportunities.

Financial Discipline - We strive to be efficient as possible by maintaining low operating costs and disciplined deployment of capital.

Achievements

During 2019, we successfully executed certain achievements in support of our strategic objectives shown above through the date of this filing:

	Safety	Reliability	Market Capture	Financial Discipline
Maintained high asset reliability during first quarter 2019.	ü	ü		ü
Generated positive cash available for distribution despite the delay in the spring planting season due to wet weather.		ü	ü	ü
Declared a first quarter 2019 cash distribution of 7 cents per unit.				ü

Industry Factors and Market Conditions

Within the nitrogen fertilizer business, earnings and cash flows from operations are primarily affected by the relationship between nitrogen fertilizer product prices, utilization and operating costs and expenses.

The price at which nitrogen fertilizer products are ultimately sold depends on numerous factors, including the global supply and demand for nitrogen fertilizer products which, in turn, depends on, among other factors, world grain demand and production levels, changes in world population, the cost and availability of fertilizer transportation infrastructure, weather conditions, the availability of imports, and the extent of government intervention in agriculture markets.

Nitrogen fertilizer prices are also affected by local factors, including local market conditions, weather patterns, and the operating levels of competing facilities. An expansion or upgrade of competitors’ facilities, new facility development, political and economic developments and other factors are likely to continue to play an important role in nitrogen fertilizer industry economics. These factors can impact, among other things, the level of inventories in the market, resulting in price volatility and a reduction in product margins. Moreover, the industry typically experiences seasonal fluctuations in demand for nitrogen fertilizer products.

2019 Market Conditions

While there is risk of shorter-term volatility given the inherent nature of the commodity cycle, the longer-term fundamentals for the U.S. nitrogen fertilizer industry remain intact. The Partnership views the anticipated combination of (i) increasing global population, (ii) decreasing arable land per capita, (iii) continued evolution to more protein-based diets in developing countries, (iv) sustained use of corn as feedstock for the domestic production of ethanol and (v) positioning at the

March 31, 2019 | 18

Table of Contents

lower end of the global cost curve will continue to provide a solid foundation for nitrogen fertilizer producers in the U.S over the longer term.

The table below shows relevant market indicators for the nitrogen fertilizer segment for the three months ended March 31, 2019, 2018 and 2017:

- (1) Information used in the charts was obtained from various third-party sources, including MarketView and the U.S. Energy Information Administration.

Non-GAAP Measures

Our management uses certain non-GAAP performance measures to evaluate current and past performance and prospects for the future to supplement our GAAP financial information presented in accordance with U.S. GAAP. These non-GAAP financial measures are important factors in assessing our operating results and profitability and include the performance and liquidity measures defined below.

The following are non-GAAP measures presented for the period ended March 31, 2019:

EBITDA - Net income (loss) before (i) interest expense, net, (ii) income tax expense (benefit) and (iii) depreciation and amortization expense.

Adjusted EBITDA - EBITDA adjusted to exclude turnaround expense which management believes are material to an investor's understanding of the Partnership's underlying operating results.

Available Cash for Distribution - Adjusted EBITDA reduced for cash reserves established by the board of directors of our general partner for (i) debt service, (ii) maintenance capital expenditures, (iii) turnaround expenses and, to the extent applicable, (iv) reserves for future operating or capital needs that the board of directors of our general partner deems necessary or appropriate, if any. Available cash for distribution may be increased by the release of previously established cash reserves, if any, and other excess cash, at the discretion of the board of directors of our general partner.

March 31, 2019 | 19

Table of Contents

Results of Operations

The following sections should be read in conjunction with the information outlined in Part I, Item 2 and the financial statements and related notes thereto in Part I, Item 1 of this Report.

Key Operating Data

Utilization - The following charts summarize our ammonia utilization rates on a consolidated basis and at each of our facilities. Utilization is an important measure used by management to assess operational output at each of the Partnership's facilities. Utilization is calculated as actual tons produced divided by capacity adjusted by planned turnarounds.

We present our utilization on a two-year rolling average to take into account the impact of our planned and unplanned outages on any specific period. The two-year rolling average is a more useful presentation of the long-term utilization performance of our plants.

We present utilization solely on ammonia production rather than each nitrogen product as it provides a comparative baseline against industry peers and eliminates the disparity of plant configurations for upgrade of ammonia into other nitrogen products. With our efforts being primarily focused on ammonia upgrade capabilities, this measure provides a meaningful view of how well we operate.

March 31, 2019 | 20

Table of Contents

Sales and Pricing per Ton. Two of our key operating metrics are total sales for ammonia and UAN along with the product pricing per ton realized at the gate. Product pricing at gate represents net sales less freight revenue divided by product sales volume in tons and is shown in order to provide a pricing measure that is comparable across the fertilizer industry.

Production Volumes. Gross tons produced for ammonia represent the total ammonia produced, including ammonia produced that was upgraded into other fertilizer products. Net tons available for sale represent the ammonia available for sale that was not upgraded into other fertilizer products.

	Three Months Ended March 31, 2019	2018
(in thousands of tons)		
Ammonia (gross produced)	179	199
Ammonia (net available for sale)	41	59
UAN	335	339

	Three Months Ended March 31, 2019	2018
Petroleum coke used in production (thousand tons)	132	118
Petroleum coke (dollars per ton)	\$38	\$18
Natural gas used in production (thousands of MMBtu) (1)	1,440	1,850
Natural gas used in production (dollars per MMBtu) (1)	\$3.83	\$3.24
Natural gas in cost of materials and other (thousands of MMBtu) (1)	1,008	1,258
Natural gas in cost of materials and other (dollars per MMBtu) (1)	\$3.87	\$3.48

(1) The feedstock natural gas shown above does not include natural gas used for fuel. The cost of fuel natural gas is included in direct operating expense (exclusive of depreciation and amortization).

March 31, 2019 | 21

Table of Contents

Financial Highlights (2019 1st Quarter Versus 2018 1st Quarter)

(1) See “Non-GAAP Reconciliations” section below for reconciliations of the non-GAAP measures shown above.

Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

Net Sales. Net sales increased by \$12.0 million to \$91.9 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. This increase was primarily due to favorable pricing conditions which contributed \$22 million in higher revenues. These price increases were offset by \$10.0 million due to volume reductions in 2019 as compared to 2018.

The following table demonstrates the impact of changes in sales volumes and pricing for the primary components of net sales for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018:

(in thousands)	Price Variance	Volume Variance
UAN	\$ 20,760	\$(9,975)
Ammonia	\$ 1,600	\$ 106

The increase in UAN and ammonia sales pricing for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily attributable to a shift in demand from fourth quarter 2018 to first quarter 2019. Due to heavy rain in the fall season, customers purchased lower quantities of ammonia for application in the fourth quarter of 2018. As a result, customer demand for ammonia increased in the first quarter of 2019 as they attempted to make up for the missed application. In addition, the aforementioned ammonia application coupled with freezing temperatures and flooding throughout the Eastern Cornbelt and Southern Plains shifted the demand for UAN, and sales volumes decreased for the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

March 31, 2019 | 22

Table of Contents

Cost of Materials and Other (exclusive of depreciation and amortization). Cost of materials and other (exclusive of depreciation and amortization) for the three months ended March 31, 2019 was \$23.7 million, compared to the three months ended March 31, 2018 of \$22.5 million. The \$1.2 million increase was comprised of \$2.2 million increase in pet coke costs at our Coffeyville plant, offset by a \$1.0 million decrease in distribution costs to off-site inventory locations.

Direct Operating Expenses (exclusive of depreciation and amortization). Direct operating expenses (exclusive of depreciation and amortization) for the three months ended March 31, 2019 were \$34.8 million as compared to the three months ended March 31, 2018 of \$38.7 million. The \$3.9 million decrease was primarily due to a build of UAN and ammonia inventories in the first quarter of 2019 compared to the first quarter in 2018.

Non-GAAP Reconciliations

Reconciliation of Net Loss to EBITDA and Adjusted EBITDA

(in thousands)	Three Months Ended March 31,	
	2019	2018
Net loss	\$(6,079)	\$(19,051)
Add:		
Interest expense, net	15,650	15,711
Income tax benefit	(112)	(37)
Depreciation and amortization	16,584	16,426
EBITDA and Adjusted EBITDA	\$26,043	\$13,049

Reconciliation of Net Cash Provided By Operating Activities to EBITDA

(in thousands)	Three Months Ended March 31,	
	2019	2018
Net cash provided by operating activities	\$51,924	\$14,486

Less:

Interest expense, net	15,650	15,711
Income tax benefit	(112)	(37)
Change in working capital	(39,098)	(15,946)
Other non-cash adjustments	(2,321)	(1,165)
EBITDA	\$26,043	\$13,049

Reconciliation of Adjusted EBITDA to Available Cash for Distribution

(in thousands)	Three Months Ended March 31,	
	2019	2018
Adjusted EBITDA	\$26,043	\$13,049
Less:		
Debt Service	(14,827)	(14,920)
Maintenance capital expenditures	(3,367)	(2,268)
Available Cash for distribution (1)	\$7,849	\$(4,139)
Common units outstanding	113,283	113,283

(1) Amount represents the cumulative Available Cash based on full year results. However, Available Cash for distribution is calculated quarterly for distribution in the following period.

March 31, 2019 | 23

Table of Contents

Liquidity and Capital Resources

Our principal source of liquidity has historically been cash from operations, which can include cash advances from customers resulting from prepay contracts. Our principal uses of cash are for working capital, capital expenditures, funding our debt service obligations and paying distributions to our unitholders, as further discussed below.

We believe that our cash from operations and existing cash and cash equivalents, along with borrowings, as necessary, under the ABL Credit Facility (defined below), will be sufficient to satisfy anticipated cash requirements associated with our existing operations for at least the next 12 months, and that we have sufficient cash resources to fund our operations for at least the next 12 months. However, our future capital expenditures and other cash requirements could be higher than we currently expect as a result of various factors. Additionally, our ability to generate sufficient cash from our operating activities and secure additional financing depends on our future performance, which is subject to general economic, political, financial, competitive and other factors beyond our control.

Depending on the needs of our business, contractual limitations and market conditions, we may from time to time seek to issue equity securities, incur additional debt, issue debt securities, or otherwise refinance our existing debt. There can be no assurance that we will seek to do any of the foregoing or that we will be able to do any of the foregoing on terms acceptable to us or at all.

There have been no material changes in liquidity for the three months ended March 31, 2019. The Partnership was in compliance with all covenants under its debt instruments as of March 31, 2019.

Cash and Other Liquidity

As of March 31, 2019, we had cash and cash equivalents of \$96.6 million, including \$63.4 million from customer advances. Combined with \$50 million available under our ABL Credit Facility less \$25.0 million in cash included in our borrowing base, we had total liquidity of \$121.6 million as of March 31, 2019.

Capital Structure

Debt, including current maturities (in thousands)	March 31, 2019	December 31, 2018
9.25% Senior Notes due 2023	\$645,000	\$645,000
6.50% Senior Notes due 2021	2,240	2,240
Unamortized discount and debt issuance costs	(17,428)	(18,251)
Total debt	\$629,812	\$628,989

Capital Spending

We divide capital spending needs into two categories: maintenance and growth. Maintenance capital spending includes non-discretionary maintenance projects and projects required to comply with environmental, health and safety regulations. Growth capital projects generally involve an expansion of existing capacity and/or a reduction in direct operating expenses. We undertake growth capital spending based on the expected return on incremental capital employed. Our total capital expenditures for the three months ended March 31, 2019 and our estimated expenditures for 2019 are as follows:

	Three Months Ended March 31, 2019	Estimated full year 2019
(in thousands)		

Edgar Filing: CVR PARTNERS, LP - Form 10-Q

Maintenance capital	\$ 3,500	\$18,000 - 20,000
Growth capital	—	2,000 - 5,000
Total capital expenditures	\$ 3,500	\$20,000 - 25,000

Our estimated capital expenditures are subject to change due to unanticipated changes in the cost, scope and completion time for capital projects. For example, we may experience increases/decreases in labor or equipment costs necessary to comply with government regulations or to complete projects that sustain or improve the profitability of the refineries or nitrogen fertilizer plants. We may also accelerate or defer some capital expenditures from time to time. Capital spending is determined by the board of directors of the Partnership's general partner.

March 31, 2019 | 24

Table of Contents

Distributions to Unitholders

The current policy of the board of directors of the Partnership's general partner is to distribute all Available Cash the Partnership generated on a quarterly basis. Available Cash for each quarter will be determined by the board of directors of the Partnership's general partner following the end of such quarter. Available Cash for each quarter is calculated as Adjusted EBITDA reduced for cash needed for (i) debt service, (ii) maintenance capital expenditures, (iii) turnaround expenses and, to the extent applicable, (iv) reserves for future operating or capital needs that the board of directors of our general partner deems necessary or appropriate, if any. Available Cash for distribution may be increased by the release of previously established cash reserves, if any, and other excess cash, at the discretion of the board of directors of our general partner.

For the fourth quarter of 2018, the Partnership declared a distribution of \$0.12 per common unit, or \$13.6 million, which was paid on March 11, 2019.

For the first quarter of 2019, the Partnership, upon approval by CVR GP's board of directors on April 24, 2019 declared a distribution of \$0.07 per common unit, or \$8 million, payable on May 13, 2019 to unitholders of record as of May 6, 2019. Distributions, if any, including the payment, amount and timing thereof, are subject to change at the discretion of the Board of Directors of CVR Partners' general partner.

Cash Flows

The following table sets forth our cash flows for the periods indicated below:

(in thousands)	Three Months Ended March		
	2019	2018	Change
Net cash flow provided by (used in):			
Operating activities	\$51,924	\$14,486	\$37,438
Investing activities	(3,500)	(2,548)	(952)
Financing activities	(13,594)	—	(13,594)
Net increase in cash and cash equivalents	\$34,830	\$11,938	\$22,892

Cash Flows Provided by Operating Activities

The change in net cash flows from operating activities for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 is primarily due to improved operating results and increased customer advances received and reflected as deferred revenue in the first quarter of 2019 compared to 2018.

Cash Flows Used in Investing Activities

The change in net cash used in investing activities for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, was due to increased capital expenditures in 2019.

Cash Flows Used in Financing Activities

The change in net cash used in financing activities for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was the result of the fourth quarter 2018 cash distributions paid in March 2019.

Off-Balance Sheet Arrangements

We do not have any “off-balance sheet arrangements” as such term is defined within the rules and regulations of the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our market risks as of March 31, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of March 31, 2019, we have evaluated, under the direction of our Executive Chairman, Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, the effectiveness of our disclosure controls and procedures, as defined in

March 31, 2019 | 25

Table of Contents

Exchange Act Rule 13a-15(e). Based upon and as of the date of that evaluation, our Executive Chairman, Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Partnership's management, including our Executive Chairman, Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no material change in the Partnership's internal control over financial reporting required by Rule 13a-15 of the Exchange Act that occurred during the fiscal quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Partnership's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 12 ("Commitments and Contingencies") to Part I, Item 1 of this Report, which is incorporated by reference into this Part II, Item 1, for a description of certain litigation, legal and administrative proceedings and environmental matters.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the "Risk Factors" section of our 2018 Form 10-K.

Item 5. Other Information

None.

March 31, 2019 | 26

Table of Contents

Item 6. Exhibits

Exhibit Exhibit Description

<u>10.2*+</u>	<u>CVR Partners, LP 2019 Performance-Based Bonus Plan, approved March 19, 2019</u>
<u>31.1*</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Executive Chairman.</u>
<u>31.2*</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer.</u>
<u>31.3*</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Executive Vice President and Chief Financial Officer.</u>
<u>31.4*</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Accounting Officer and Corporate Controller.</u>
<u>32.1†</u>	<u>Section 1350 Certification of Executive Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, and the Chief Accounting Officer and Corporate Controller.</u>
	The following financial information for CVR Partners, LP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in XBRL ("Extensible Business Reporting Language") includes: (1)
101*	Condensed Consolidated Balance Sheets (unaudited), (2) Condensed Consolidated Statements of Operations (unaudited), (3) Condensed Consolidated Statements of Cash Flows (unaudited) and (4) the Notes to Condensed Consolidated Financial Statements (unaudited), tagged in detail.

* Filed herewith.

† Furnished herewith.

+ Denotes management contract or compensatory plan or arrangement.

PLEASE NOTE: Pursuant to the rules and regulations of the SEC, we may file or incorporate by reference agreements referenced as exhibits to the reports that we file with or furnish to the SEC. The agreements are filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other factual information about the Partnership, its business or operations. In particular, the assertions embodied in any representations, warranties and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties and covenants in the agreements may have been used for the purpose of allocating risk between the parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Partnership's public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Partnership, its business or operations on the date hereof.

March 31, 2019 | 27

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CVR Partners, LP

By: CVR GP, LLC, its general partner

April 25, 2019 By: /s/ Tracy D. Jackson

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

April 25, 2019 By: /s/ Matthew W. Bley

Chief Accounting Officer and Corporate Controller
(Principal Accounting Officer)

March 31, 2019 | 28