Invesco Mortgage Capital Inc.
Form 10-K
March 24, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

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 001-34385

INVESCO MORTGAGE CAPITAL INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	26-2749336 (I.R.S. Employer Identification No.)
1555 Peachtree Street, N.E., Suite 1800 Atlanta, Georgia (Address of principal executive offices)	30309 (Zip Code)

(404) 892-0896
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer x Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's common stock held by non-affiliates was $164,119,000 based on the closing sales price on the New York Stock Exchange on June 30, 2009.

As of March 16, 2010, there were 16,938,046 outstanding shares of common stock of Invesco Mortgage Capital Inc.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference certain information (solely to the extent explicitly indicated) from the registrant's proxy statement for the 2010 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

Invesco Mortgage Capital Inc.

TABLE OF CONTENTS

Item 1.	Business	5
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	47
Item 2.	Properties	48
Item 3.	Legal Proceedings	48
Item 4.	Omitted and Reserved	48
	Part II	
Item 5.	Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	49
Item 6.	Selected Financial Data	51
Item 7.	Management’s Discussion and Analysis of Financial Conditional and Results of Operations	52
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	63
Item 8.	Financial Statements and Supplementary Data	66
Item 9.	Changes in and Disagreements with Accounts on Accounting and Financial Disclosure	66
Item 9A(T).	Controls and Procedures	66
Item 9B.	Other Information	66
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance	67
Item 11.	Executive Compensation	67
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	67
Item 13.	Certain Relationships and Related Transactions and Director Independence	67
Item 14.	Principal Accountant Fees and Services	67
	Part IV	
Item 15.	Exhibits, Financial Statement Schedules	68
SIGNATURES		93

Forward-Looking Statements

We make forward-looking statements in this Annual Report on Form 10-K (this “Report”) and other filings we make with the Securities and Exchange Commission (“SEC”) within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “may” or similar expressions, we intend to identify forward-looking statem
Statements regarding the following subjects, among others, may be forward-looking:

- use of proceeds of our equity offerings;
- our business and investment strategy;
- our investment portfolio;
- our projected operating results;
- actions and initiatives of the U.S. government and changes to U.S. government policies;
- our ability to obtain additional financing arrangements;
- financing and advance rates for our target assets;
- our expected leverage;
- general volatility of the securities markets in which we invest;
- our expected investments;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our target assets;
- changes in prepayment rates on our target assets;
- effects of hedging instruments on our target assets;
- rates of default or decreased recovery rates on our target assets;
- modifications to whole loans or loans underlying securities;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- changes in governmental regulations, tax law and rates, and similar matters;
- our ability to qualify as a REIT for U.S. federal income tax purposes;

- our ability to maintain our exemption from registration under the 1940 Act;

- availability of investment opportunities in mortgage-related, real estate-related and other securities;
- availability of qualified personnel;
- estimates relating to our ability to continue to make distributions to our shareholders in the future;
- our understanding of our competition; and
- market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described in this Report under the headings “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business.

Our Company

We were incorporated in Maryland in June 2008 and commenced operations in July 2009. We are focused on investing in, financing and managing residential and commercial mortgage-backed securities and mortgage loans, which we collectively refer to as our target assets. Our objective is to provide attractive risk-adjusted returns to our investors, primarily through dividends and secondarily through capital appreciation. To achieve this objective, we selectively acquire assets to construct a diversified investment portfolio designed to produce attractive returns across a variety of market conditions and economic cycles.

Our target assets consist of residential mortgage-backed securities ("RMBS") for which a U.S. government agency such as the Government National Mortgage Association ("Ginnie Mae") or a federally chartered corporation such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac") guarantees payments of principal and interest on the securities. We refer to these securities as Agency RMBS. Our Agency RMBS investments include mortgage pass-through securities and may include collateralized mortgage obligations ("CMOs"). We also invest in RMBS that are not issued or guaranteed by a U.S. government agency ("non-Agency RMBS"), commercial mortgage-backed securities ("CMBS") and residential and commercial mortgage loans.

We generally finance our Agency RMBS investments, and may finance our non-Agency RMBS investments, through traditional repurchase agreement financing or committed borrowing facilities. In addition, we finance our investments in CMBS with financings under the Term Asset-Backed Securities Loan Facility ("TALF"). We have also financed, and may do so again in the future, our investments in certain non-Agency RMBS, CMBS and residential and commercial mortgage loans by contributing capital to one or more of the legacy securities public-private investment funds ("PPIFs"), that receive financing under the U.S. government's Public-Private Investment Program ("PPIP"), established and managed by our Manager (the "Invesco PPIP Fund") or one of its affiliates.

We have invested the net proceeds from our initial public offering ("IPO") and private placement, as well as monies that we borrowed under repurchase agreements and TALF, in accordance with our investment strategy. As of December 31, 2009, we had an investment portfolio of $802.6 million consisting of $556.4 million in Agency RMBS, $115.3 million in non-Agency RMBS, $101.2 million in CMBS and $29.7 million in CMOs. In addition, we invested $4.1 million in the Invesco PPIP Fund.

As of December 31, 2009, 19.1% of our equity (net of related debt) was invested in Agency RMBS, 54.8% in non-Agency RMBS, 9.9% in CMBS, 2.0% in the Invesco PPIP Fund and 14.2% in other assets (including cash and restricted cash).

We intend to qualify to be taxed as a real estate investment trust ("REIT") for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2009. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our net taxable income to our shareholders and maintain our qualification as a REIT. We operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the "1940 Act").

Public Offerings and Private Placement

On July 1, 2009, we successfully completed our IPO pursuant to which we sold 8,500,000 shares of our common stock to the public at a price of $20.00 per share for net proceeds of $164.8 million. Concurrent with our IPO, we completed a private placement in which we sold 75,000 shares of our common stock to our Manager at a price of $20.00 per share. In addition, IAS Operating Partnership LP (our "Operating Partnership") sold 1,425,000 limited partnership units ("OP Units") to Invesco Investments (Bermuda) Ltd., a wholly-owned subsidiary of Invesco, at a purchase price of $20.00 per unit. The net proceeds from the private placement totaled $30.0 million.

On July 27, 2009, the underwriters of our IPO exercised their over-allotment option to purchase an additional 311,200 shares of our common stock at a price of $20.00 per share for net proceeds of $6.1 million. Collectively, we received net proceeds from our IPO and the related private placement of approximately $200.9 million.

On January 15, 2010, we completed a follow-on public offering of 7,000,000 shares of common stock, and an issuance of an additional 1,050,000 shares of common stock pursuant to the underwriters' full exercise of their over-allotment option, at $21.25 per share. The net proceeds to us were $162.7 million.

Our Manager

We are externally managed and advised by Invesco Advisers, Inc. (formerly Invesco Institutional (N.A.), Inc.) (our "Manager"), an SEC-registered investment adviser and indirect, wholly-owned subsidiary of Invesco Ltd. (NYSE: IVZ) ("Invesco").

We are externally managed and advised by our Manager. Pursuant to the terms of the management agreement, our Manager provides us with our management team, including our officers, along with appropriate support personnel. Each of our officers is an employee of Invesco. We do not have any employees. With the exception of our Chief Financial Officer, our Manager does not dedicate any of its employees exclusively to us, nor is our Manager or its employees obligated to dedicate any specific portion of its or their time to our business. Our Manager is at all times subject to the supervision and oversight of our board of directors and has only such functions and authority as our board of directors delegates to it.

Our Competitive Advantages

We believe that our competitive advantages include the following:

Significant Experience of Our Manager

Our Manager's senior management team has a long track record and broad experience in managing residential and commercial mortgage-related assets through a variety of credit and interest rate environments and has demonstrated the ability to generate attractive risk-adjusted returns under different market conditions and cycles. In addition, our Manager benefits from the insight and capabilities of WL Ross & Co. LLC ("WL Ross') and Invesco's real estate team. Through WL Ross and Invesco's real estate team, we have access to broad and deep teams of experienced investment professionals in real estate and distressed investing. Through these teams, we have real time access to research and data on the mortgage and real estate industries. We believe having in-house access to these resources and expertise provides us with a competitive advantage over other companies investing in our target assets who have less internal resources and expertise.

Extensive Strategic Relationships and Experience of our Manager and its Affiliates

Our Manager maintains extensive long-term relationships with other financial intermediaries, including primary dealers, leading investment banks, brokerage firms, leading mortgage originators and commercial banks. We believe these relationships enhance our ability to source, finance and hedge investment opportunities and, thus, will enable us to grow in various credit and interest rate environments.

Disciplined Investment Approach

We seek to maximize our risk-adjusted returns through our Manager’s disciplined investment approach, which relies on rigorous quantitative and qualitative analysis. Our Manager monitors our overall portfolio risk and evaluates the characteristics of our investments in our target assets including, but not limited to, loan balance distribution, geographic concentration, property type, occupancy, periodic interest rate caps (which limit the amount an interest rate can increase during any given period,) lifetime interest rate caps, weighted-average loan-to-value and weighted-average credit score. In addition, with respect to any particular target asset, our Manager’s investment team evaluates, among other things, relative valuation, supply and demand trends, shape of yield curves, prepayment rates, delinquency and default rates recovery of various sectors and vintage of collateral. We believe this strategy and our commitment to capital preservation provide us with a competitive advantage when operating in a variety of market conditions.

Access to Our Manager's Sophisticated Analytical Tools, Infrastructure and Expertise

We utilize our Manager's proprietary and third-party mortgage-related security and portfolio management tools to generate an attractive net interest margin from our portfolio. We focus on in-depth analysis of the numerous factors that influence our target assets, including: (1) fundamental market and sector review; (2) rigorous cash flow analysis; (3) disciplined security selection; (4) controlled risk exposure; and (5) prudent balance sheet management. We utilize these tools to guide the hedging strategies developed by our Manager to the extent consistent with satisfying the requirements for qualification as a REIT. In addition, we use our Manager's proprietary technology management platform called QTechsm to monitor investment risk. QTechsm collects and stores real-time market data and integrates markets performance with portfolio holdings and proprietary risk models to measure portfolio risk positions. This measurement system portrays overall portfolio risk and its sources. Through the use of these tools, we analyze factors that affect the rate at which mortgage prepayments occur, including changes in the level of interest rates, directional trends in residential and commercial real estate prices, general economic conditions, the locations of the properties securing the mortgage loans and other social and demographic conditions in order to acquire the target assets that we believe are undervalued. We believe that sophisticated analysis of both macro and micro economic factors enable us to manage cash flow and distributions while preserving capital.

Our Manager has created and maintains analytical and portfolio management capabilities to aid in security selection and risk management. We capitalize on the market knowledge and ready access to data across our target markets that our Manager and its affiliates obtain through their established platform. We also benefit from our Manager's comprehensive financial and administrative infrastructure, including its risk management and financial reporting operations, as well as its business development, legal and compliance teams.

Investment Strategy

We invest in a diversified pool of mortgage assets that generate attractive risk adjusted returns. Our target assets include Agency RMBS, non-Agency RMBS, CMBS and residential and commercial mortgage loans. In addition to direct purchases of our target assets, we also invest in the Invesco PPIP Fund, which, in turn, invests in our target assets. Our Manager's investment committee makes investment decisions for the Invesco PPIP Fund.

Agency RMBS

Agency RMBS are residential mortgage-backed securities for which a U.S. government agency such as Ginnie Mae, or a federally chartered corporation such as Fannie Mae or Freddie Mac guarantees payments of principal and interest on the securities. Payments of principal and interest on Agency RMBS, not the market value of the securities themselves, are guaranteed. Agency RMBS differ from other forms of traditional debt securities, which normally provide for periodic payments of interest in fixed amounts with principal payments at maturity or on specified call dates. Instead, Agency RMBS provide for monthly payments, which consist of both principal and interest. In effect, these payments are a "pass-through" of scheduled and prepaid principal payments and the monthly interest payments made by the individual borrowers on the mortgage loans, net of any fees paid to the issuers, servicers or guarantors of the securities.

The principal may be prepaid at any time due to prepayments on the underlying mortgage loans or other assets. These differences can result in significantly greater price and yield volatility than is the case with traditional fixed-income securities.

Various factors affect the rate at which mortgage prepayments occur, including changes in the level and directional trends in housing prices, interest rates, general economic conditions, the age of the mortgage loan, the location of the property and other social and demographic conditions. Generally, prepayments on Agency RMBS increase during periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates. However, this may not always be the case. We may reinvest principal repayments at a yield that is higher or lower than the yield on the repaid investment, thus affecting our net interest income by altering the average yield on our assets.

However, when interest rates are declining, the value of Agency RMBS with prepayment options may not increase as much as other fixed income securities. The rate of prepayments on underlying mortgages will affect the price and volatility of Agency RMBS and may have the effect of shortening or extending the duration of the security beyond what was anticipated at the time of purchase. When interest rates rise, our holdings of Agency RMBS may experience reduced returns if the owners of the underlying mortgages pay off their mortgages slower than anticipated. This is generally referred to as extension risk.

Mortgage pass-through certificates, CMOs, Freddie Mac Gold Certificates, Fannie Mae Certificates and Ginnie Mae Certificates are types of Agency RMBS that are collateralized by either fixed-rate mortgage loans (“FRMs”), adjustable-rate mortgage loans (“ARMs”), or hybrid ARMs. FRMs have an interest rate that is fixed for the term of the loan and do not adjust. The interest rates on ARMs generally adjust annually (although some may adjust more frequently) to an increment over a specified interest rate index. Hybrid ARMs have interest rates that are fixed for a specified period of time (typically three, five, seven or ten years) and, thereafter, adjust to an increment over a specified interest rate index. ARMs and hybrid ARMs generally have periodic and lifetime constraints on how much the loan interest rate can change on any predetermined interest rate reset date. Our allocation of our Agency RMBS collateralized by FRMs, ARMs or hybrid ARMs will depend on various factors including, but not limited to, relative value, expected future prepayment trends, supply and demand, costs of hedging, costs of financing, expected future interest rate volatility and the overall shape of the U.S. Treasury and interest rate swap yield curves. We intend to take these factors into account when we make investments.

Non-Agency RMBS

Non-Agency RMBS are residential mortgage-backed securities that are not issued or guaranteed by a U.S. government agency. Like Agency RMBS, non-Agency RMBS represent interests in “pools” of mortgage loans secured by residential real property. We finance our non-Agency RMBS portfolio with financings under the TALF, committed borrowing facilities or with other private financing sources. We have also financed and may continue to finance certain non-Agency RMBS by investing in the Invesco PPIP Fund, which, in turns, invests in our target assets. Non-Agency RMBS may be AAA rated through unrated. The rating, as determined by one or more of the nationally recognized statistical rating organizations, including Fitch, Inc. Moody’s Investors Service, Inc. and Standard & Poor’s Corporation, indicates the organization’s view of the creditworthiness of the investment. The mortgage loan collateral for non-Agency RMBS generally consists of residential mortgage loans that do not generally conform to the U.S. government agency underwriting guidelines due to certain factors including mortgage balance in excess of such guidelines, borrower characteristics, loan characteristics and level of documentation.

CMBS

CMBS are securities backed by obligations (including certificates of participation in obligations) that are principally secured by commercial mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, apartments, nursing homes and senior living facilities. We finance certain of our CMBS portfolio with financings under the TALF and by investing in the Invesco PPIP Fund, which, in turns, invests in our target assets. See ‘‘Our Investments— Financing Strategy” below.

CMBS are typically issued in multiple tranches whereby the more senior classes are entitled to priority distributions to make specified interest and principal payments on such tranches. Losses and other shortfalls from expected amounts to be received on the mortgage pool are borne by the most subordinate classes, which receive payments only after the more senior classes have received all principal and/or interest to which they are entitled. The credit quality of CMBS depends on the credit quality of the underlying mortgage loans, which is a function of factors such as the following: the principal amount of loans relative to the value of the related properties; the mortgage loan terms, such as amortization; market assessment and geographic location; construction quality of the property; and the creditworthiness of the borrowers.

Residential Mortgage Loans

Residential mortgage loans are loans secured by residential real properties. We generally focus our residential mortgage loan acquisitions on the purchase of loan portfolios made available to us under the legacy loan program. See ‘‘Our Investments— Financing Strategy” below. We expect that the residential mortgage loans we acquire will be first lien, single-family FRMs, ARMs and Hybrid ARMs with original terms to maturity of not more than 40 years and that are either fully amortizing or are interest-only for up to ten years, and fully amortizing thereafter.

Prime and Jumbo Mortgage Loans

Prime mortgage loans are mortgage loans that generally conform to U.S. government agency underwriting guidelines. Jumbo prime mortgage loans are mortgage loans that generally conform to U.S. government agency underwriting guidelines except that the mortgage balance exceeds the maximum amount permitted by U.S. government agency underwriting guidelines.

Alt-A Mortgage Loans

Alt-A mortgage loans are mortgage loans made to borrowers whose qualifying mortgage characteristics do not conform to U.S. government agency underwriting guidelines, but whose borrower characteristics may. Generally, Alt-A mortgage loans allow homeowners to qualify for a mortgage loan with reduced or alternative forms of documentation. The credit quality of Alt-A borrowers generally exceeds the credit quality of subprime borrowers.

Subprime Mortgage Loans

Subprime mortgage loans are loans that do not conform to U.S. government agency underwriting guidelines.

Commercial Mortgage Loans

Commercial mortgage loans are mortgage loans secured by first or second liens on commercial properties such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, apartments, nursing homes and senior living facilities. These loans, which tend to range in term from five to 15 years, can carry either fixed or floating interest rates. They generally permit pre-payments before final maturity but only with the payment to the lender of yield maintenance pre-payment penalties. First lien loans represent the senior lien on a property while second lien loans or second mortgages represent a subordinate or second lien on a property.

We have generally focused our commercial mortgage loan acquisitions on the purchase of loan portfolios made available to us through our investment in the Invesco PPIP Fund. See ‘‘Our Investments— Financing Strategy” below.

B-Notes

A B-Note, unlike a second mortgage loan, is part of a single larger commercial mortgage loan, with the other part evidenced by an A-Note, which are evidenced by a single commercial mortgage. The holder of the A-Note and B-Note enter into an agreement which sets forth the respective rights and obligations of each of the holders.

The terms of the agreement provide that the holder of the A-Note has a priority of payment over the holder of the B-Note. A loan evidenced by a note which is secured by a second mortgage is a separate loan and the holder has a direct relationship with the borrower. In addition, unlike the holder of a B-Note, the holder of the loan would also be the holder of the mortgage. The holder of the second mortgage loan typically enters into an intercreditor agreement with the holder of the first mortgage loan which sets forth the respective rights and obligations of each of the holders, similar in substance to the agreement that is entered into between the holder of the A-Note and the holder of the B-Note. B-Note lenders have the same obligations, collateral and borrower as the A-Note lender, but typically are subordinated in recovery upon a default.

Bridge Loans

Bridge loans tend to be floating rate whole loans made to borrowers who are seeking short-term capital (with terms of up to five years) to be used in the acquisition, construction or redevelopment of a property. This type of bridge financing enables the borrower to secure short-term financing while improving the property and avoid burdening it with restrictive long-term debt.

Mezzanine Loans

Mezzanine loans are generally structured to represent senior positions to the borrower's equity in, and subordinate to a first mortgage loan on a property. These loans are generally secured by pledges of ownership interests, in whole or in part, in entities that directly or indirectly own the real property. At times, mezzanine loans may be secured by additional collateral, including letters of credit, personal guarantees, or collateral unrelated to the property. Mezzanine loans may be structured to carry either fixed or floating interest rates as well as carry a right to participate in a percentage of gross revenues and a percentage of the increase in the fair market value of the property securing the loan. Mezzanine loans may also contain prepayment lockouts, penalties, minimum profit hurdles and other mechanisms to protect and enhance returns to the lender. Mezzanine loans usually have maturities that match the maturity of the related mortgage loan but may have shorter or longer terms.

Financing Strategy

We finance our investments in Agency RMBS, and in the future finance our investments in non-Agency RMBS, primarily through short-term borrowings structured as repurchase agreements. In addition, we currently finance our investments in CMBS with financing under the TALF and with private financing sources. We also finance our investments in certain non-Agency RMBS, CMBS and residential and commercial mortgage loans by investing in the Invesco PPIP Fund, which receives financing from the U.S. Treasury and from the Federal Deposit Insurance Corporation (the "FDIC").

Repurchase Agreements

Repurchase agreements are financings pursuant to which we sell our target assets to the repurchase agreement counterparty, the buyer, for an agreed upon price with the obligation to repurchase these assets from the buyer at a future date and at a price higher than the original purchase price. The amount of financing we receive under a repurchase agreement is limited to a specified percentage of the estimated market value of the assets we sell to the buyer. The difference between the sale price and repurchase price is the cost, or interest expense, of financing under a repurchase agreement. Under repurchase agreement financing arrangements, certain buyers, or lenders, require us to provide additional cash collateral, or a margin call, to re-establish the ratio of value of the collateral to the amount of borrowing. As of December 31, 2009, we had entered into master repurchase agreements with eighteen counterparties and have borrowed $546.0 million under five of those master repurchase agreements to finance our purchases of Agency RMBS. In addition, as of December 31, 2009, we had entered into three interest rate swap agreements, for a notional amount of $375.0 million, designed to mitigate the effects of increases in interest rates under a portion of our repurchase agreements.

The Term Asset-Backed Securities Loan Facility

On November 25, 2008, the U.S. Treasury and the Federal Reserve announced the creation of the TALF. The TALF is intended to make credit available to consumers and businesses on more favorable terms by facilitating the issuance of asset-backed securities and improving the market conditions for asset-backed securities generally. The Federal Reserve Bank of New York (the "FRBNY") will make up to $200 billion of loans under the TALF. The TALF loans will have a term of three years or, in certain cases, five years, will be non-recourse to the borrower, and will be fully secured by eligible asset-backed securities. At December 31, 2009, we have secured borrowings of $80.4 million under the TALF.

The Public-Private Investment Program

On March 23, 2009, the U.S. Treasury, in conjunction with the FDIC and the Federal Reserve, announced the creation of the PPIP. The PPIP is designed to encourage the transfer of certain illiquid legacy real estate-related assets off of the balance sheets of financial institutions, restarting the market for these assets and supporting the flow of credit and other capital into the broader economy. PPIP funds established under the legacy loan program will be established to purchase troubled loans from insured depository institutions and PPIP funds established under the legacy securities program to purchase from financial institutions legacy non-Agency RMBS and newly issued and legacy CMBS that were originally AAA rated. PPIFs will have access to equity capital from the U.S. Treasury as well as debt financing provided or guaranteed by the U.S. government. As of December 31, 2009, we have a commitment to invest up to $25.0 million in the Invesco PPIP Fund of which $4.1 million has been called.

Leverage

We use leverage on our target assets to achieve our return objectives. For our investments in Agency RMBS (including CMOs), we focus on securities we believe provide attractive returns when levered approximately 6 to 8 times. For our investments in non-Agency RMBS, we primarily focus on securities we believe provide attractive unlevered returns, however, in the future we may employ leverage of up to 1 time. We leverage our CMBS 3 to 5 times.

Risk Management Strategy

Interest Rate Hedging

Subject to maintaining our qualification as a REIT, we may engage in a variety of interest rate management techniques that seek on one hand to mitigate the influence of interest rate changes on the costs of liabilities and on the other hand help us achieve our risk management objective. Specifically, we seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, we seek to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a favorable spread between the yield on our assets and the cost of our financing. We rely on our Manager's expertise to manage these risks on our behalf. We utilize derivative financial instruments, including, puts and calls on securities or indices of securities, interest rate swaps, interest rate caps, interest rate swaptions, exchange-traded derivatives, U.S. Treasury securities and options on U.S. Treasury securities and interest rate floors to hedge all or a portion of the interest rate risk associated with the financing of our investment portfolio.

Market Risk Management

Risk management is an integral component of our strategy to deliver returns to our shareholders. Because we invest in mortgage-backed securities ("MBS"), investment losses from prepayment, interest rate volatility or other risks can meaningfully reduce or eliminate our distributions to shareholders. In addition, because we employ financial leverage in funding our investment portfolio, mismatches in the maturities of our assets and liabilities can create the need to continually renew or otherwise refinance our liabilities.

Our net interest margins are dependent upon a positive spread between the returns on our asset portfolio and our overall cost of funding. To minimize the risks to our portfolio, we actively employ portfolio-wide and security-specific risk measurement and management processes in our daily operations. Our Manager's risk management tools include software and services licensed or purchased from third parties, in addition to proprietary software and analytical methods developed by Invesco. There can be no guarantee that these tools will protect us from market risks.

Credit Risk

We believe our investment strategy generally keeps our credit losses and financing costs low. However, we retain the risk of potential credit losses on all of the residential and commercial mortgage loans, as well as the loans underlying the non-Agency RMBS and CMBS we hold. We seek to manage this risk through our pre-acquisition due diligence process and through use of non-recourse financing, which limits our exposure to credit losses to the specific pool of mortgages that are subject to the non-recourse financing. In addition, with respect to any particular target asset, our Manager's investment team evaluates, among other things, relative valuation, supply and demand trends, shape of yield curves, prepayment rates, delinquency and default rates, recovery of various sectors and vintage of collateral.

Investment Guidelines

Our board of directors has adopted the following investment guidelines:

- no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;
- no investment shall be made that would cause us to be regulated as an investment company under the 1940 Act;
- our assets will be invested within our target assets; and
- until appropriate investments can be identified, our Manager may pay off short-term debt or invest the proceeds of this and any future offerings in interest-bearing, short-term investments, including funds that are consistent with our intention to qualify as a REIT.

These investment guidelines may be changed from time to time by our board of directors without the approval of our shareholders.

Investment Committee

We have an investment committee comprised certain of our officers and certain of our Manager's investment professionals. The investment committee periodically reviews our investment portfolio and its compliance with our investment policies and procedures, including our investment guidelines, and provides our board of directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. In addition, our Manager has a separate investment committee that makes investment decisions for the Invesco PPIP Fund. From time to time, as it deems appropriate or necessary, our board of directors also reviews our investment portfolio and its compliance with our investment policies and procedures, including our investment guidelines.

Investment Process

The investment team has a strong focus on security selection and on the relative value of various sectors within the mortgage market. Our Manager utilizes this expertise to build a diversified portfolio of Agency RMBS, non-Agency RMBS, CMBS and residential and commercial mortgage loans. Our Manager incorporates its views on the economic environment and the outlook for the mortgage market, including relative valuation, supply and demand trends, the level of interest rates, the shape of the yield curve, prepayment rates, financing and liquidity, housing prices, delinquencies, default rates, recovery of various sectors and vintage of collateral.

Our investment process includes sourcing and screening investment opportunities, assessing investment suitability, conducting interest rate and prepayment analysis, evaluating cash flow and collateral performance, reviewing legal structure and servicer and originator information and investment structuring, as appropriate, to ensure an attractive return commensurate with the risk we are bearing. Upon identification of an investment opportunity, the investment will be screened and monitored by our Manager to determine its impact on maintaining our REIT qualification and our exemption from registration under the 1940 Act. We make investments in sectors where our Manager has strong core competencies and where we believe market risk and expected performance can be reasonably quantified.

Our Manager evaluates each of our investment opportunities based on its expected risk-adjusted return relative to the returns available from other, comparable investments. In addition, we evaluate new opportunities based on their relative expected returns compared to securities held in our portfolio. The terms of any leverage available to us for use in funding an investment purchase are also taken into consideration, as are any risks posed by illiquidity or correlations with other securities in the portfolio. Our Manager also develops a macro outlook with respect to each target asset class by examining factors in the broader economy such as gross domestic product, interest rates, unemployment rates and availability of credit, among other factors. Our Manager also analyzes fundamental trends in the relevant target asset class sector to adjust/maintain its outlook for that particular target asset class. Views on a particular target asset class are recorded in our Manager’s QTechsm system. These macro decisions guide our Manager’s assumptions regarding model inputs and portfolio allocations among target assets. Additionally, our Manager conducts extensive diligence with respect to each target asset class by, among other things, examining and monitoring the capabilities and financial wherewithal of the parties responsible for the origination, administration and servicing of relevant target assets.

Competition

Our net income depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. In acquiring our investments, we compete with other REITs, specialty finance companies, savings and loan associations, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies and other entities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Conditions.” In addition, there are numerous REITs with similar asset acquisition objectives, including a number that have been recently formed, and others may be organized in the future. These other REITs increase competition for the available supply of mortgage assets suitable for purchase. Many of our competitors are significantly larger than we are, have access to greater capital and other resources and may have other advantages over us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than we can. Current market conditions may attract more competitors, which may increase the competition for sources of financing. An increase in the competition for sources of financing could adversely affect the availability and cost of financing, and thereby adversely affect the market price of our common stock.

In the face of this competition, we have access to our Manager’s professionals and their industry expertise, which provides us with a competitive advantage. These professionals help us assess investment risks and determine appropriate pricing for certain potential investments. These relationships enable us to compete more effectively for attractive investment opportunities. Despite certain competitive advantages, we may not be able to achieve our business goals or expectations due to the competitive risks that we face. For additional information concerning these competitive risks, see “Risk Factors — Risks Related to Our Investments — We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these securities.”

Staffing

We are managed by our Manager pursuant to the management agreement between our Manager and us. See "Certain Relationships, Related Transactions, and Director Independence" for a discussion of the management fee and our relationship with our Manager. All of our officers are employees of Invesco. We do not have any employees.

Our Corporate Information

Our principal executive offices are located at 1555 Peachtree Street, N.E., Atlanta, Georgia 30309. Our telephone number is (404) 892-0896. Our website is www.invescomortgagecapital.com. The contents of our website are not a part of this Report. The information on our website is not intended to form a part of or be incorporated by reference into this Report.

Compliance with NYSE Corporate Governance Standards

Each year, the chief executive officer of each company listed on the New York Stock Exchange ("NYSE") must certify to the NYSE that he or she is not aware of any violation by the company of NYSE corporate governance listing standards as of the date of certification, qualifying the certification to the extent necessary. In July 2009, we listed our common stock on the NYSE and our chief executive officer will submit our first required certification to the within 30 days of our 2010 annual shareholders' meeting.

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this Report before purchasing our common stock. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline and you may lose some or all of your investment.

Risks Related to Our Relationship With Our Manager

We are dependent on our Manager and its key personnel for our success.

We have no separate facilities and are completely reliant on our Manager. We do not have any employees. Our executive officers are employees of Invesco. Our Manager has significant discretion as to the implementation of our investment and operating policies and strategies. Accordingly, we believe that our success depends to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the executive officers and key personnel of our Manager. The executive officers and key personnel of our Manager evaluate, negotiate, close and monitor our investments; therefore, our success depends on their continued service. The departure of any of the executive officers or key personnel of our Manager could have a material adverse effect on our performance. In addition, we offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager's principals and professionals. The initial term of our management agreement with our Manager only extends until the second anniversary of the closing of our IPO, or July 1, 2011, with automatic one-year renewals thereafter. If the management agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan. Moreover, with the exception of our Chief Financial Officer, our Manager is not obligated to dedicate certain of its personnel exclusively to us nor is it obligated to dedicate any specific portion of its time to our business, and none of our Manager's personnel are contractually dedicated to us under our management agreement with our Manager.

As of December 31, 2009, we had entered into master repurchase agreements with eighteen counterparties in order to finance our acquisitions of Agency RMBS and non-Agency RMBS. Our Manager has obtained commitments on our behalf from a number of the counterparties. Therefore, if the management agreement is terminated, we cannot assure you that we would continue to have access to these sources of financing for our investments.

Invesco and our Manager have limited experience operating a REIT or managing a portfolio of our target assets on a leveraged basis and we cannot assure you that our Manager's past experience will be sufficient to successfully manage our business as a REIT with such a portfolio.

Prior to our inception, our Manager had never operated a REIT. The REIT provisions of the Internal Revenue Code are complex, and any failure to comply with those provisions in a timely manner could prevent us from qualifying as a REIT or force us to pay unexpected taxes and penalties. In such event, our net income would be reduced and we could incur a loss. In addition, our Manager has limited experience managing a portfolio of our target assets using leverage.

There are conflicts of interest in our relationship with our Manager and Invesco, which could result in decisions that are not in the best interests of our shareholders.

We are subject to conflicts of interest arising out of our relationship with Invesco and our Manager. Specifically, each of our officers and two of our directors, Mr. Armour and Ms. Dunn Kelley, are employees of Invesco. Our Manager and our executive officers may have conflicts between their duties to us and their duties to, and interests in, Invesco. Our Manager is not required to devote a specific amount of time to our operations. We compete for investment opportunities directly with our Manager or other clients of our Manager or Invesco and its subsidiaries. A substantial number of separate accounts managed by our Manager have limited exposure to our target assets. In addition, in the future our Manager may have additional clients that compete directly with us for investment opportunities. Our Manager has an investment and financing allocation policy in place intended to enable us to share equitably with the investment companies and institutional and separately managed accounts that effect securities transactions in fixed income securities for which our Manager is responsible in the selection of brokers, dealers and other trading counterparties. Therefore, we may compete with our Manager for investment or financing opportunities sourced by our Manager and, as a result, we may either not be presented with the opportunity or have to compete with our Manager to acquire these investments or have access to these sources of financing. Our Manager and our executive officers may choose to allocate favorable investments to Invesco or other clients of Invesco instead of to us. Further, at times when there are turbulent conditions in the mortgage markets or distress in the credit markets or other times when we will need focused support and assistance from our Manager, Invesco or entities for which our Manager also acts as an investment manager will likewise require greater focus and attention, placing our Manager's resources in high demand. In such situations, we may not receive the level of support and assistance that we may receive if we were internally managed or if our Manager did not act as a manager for other entities. There is no assurance that our Manager's allocation policies that address some of the conflicts relating to our access to investment and financing sources will be adequate to address all of the conflicts that may arise.

We pay our Manager substantial management fees regardless of the performance of our portfolio. Our Manager's entitlement to a management fee, which is not based upon performance metrics or goals, might reduce its incentive to devote its time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. This in turn could hurt both our ability to make distributions to our shareholders and the market price of our common stock.

Concurrently with the completion of our IPO, we completed a private placement in which we sold 75,000 shares of our common stock to Invesco, through our Manager, at $20.00 per share and 1,425,000 OP units to Invesco, through Invesco Investments (Bermuda) Ltd., a wholly owned subsidiary of Invesco, at $20.00 per unit. As of December 31, 2009, Invesco, through our Manager, beneficially owned 0.73% of our common stock As of December 31, 2009, assuming that all OP units are redeemed for an equivalent number of shares of our common stock. Invesco would beneficially own approximately 15% of our outstanding common stock. Each of our Manager and Invesco Investments (Bermuda) Ltd. agreed that, for a period of one year after June 25, 2009, neither will, without the prior written consent of Credit Suisse Securities (USA) LLC and Morgan Stanley & Co. Incorporated, dispose of or hedge any of the shares of our common stock or OP units that it purchased in the private placement, subject to extension in certain circumstances. Each of our Manager and Invesco Investments (Bermuda) Ltd. may sell any of these securities at any time following the expiration of this one-year lock-up period. To the extent our Manager or Invesco Investments (Bermuda) Ltd. sell some of these securities, its interests may be less aligned with our interests.

Our Manager would have a conflict in recommending our participation in any legacy security or legacy loan PPIFs it manages.

To the extent available to us, we seek to finance additional non-Agency RMBS and CMBS by contributing capital to the Invesco PPIP Fund, which qualified to obtain financing under the legacy securities program under the PPIP. We committed to invest up to up to $25.0 million in the Invesco PPIP Fund, which, in turn, invests in our target assets and may seek additional investments in this or a similar PPIP fund managed by our Manager. Our Manager's investment committee makes investment decisions for the Invesco PPIP Fund. As of December 31, 2009, $4.1 million of the commitment has been called. Pursuant to the terms of the management agreement, we pay our Manager a management fee. As a result, we do not pay any management or investment fees with respect to our investment in the Invesco PPIP Fund managed by our Manager. Our Manager waives all such fees. Our Manager has a conflict of interest in recommending our participation in any PPIF it manages because the fees payable to it by the PPIF may be greater than the fees payable to it by us under the management agreement. We have addressed this conflict by requiring that the terms of any equity investment we make in any such PPIF be approved by our audit committee consisting of our independent directors; however, there can be no assurance that our audit committee's approval of investments in any such PPIF will eliminate the conflict of interest.

The management agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.

Our executive officers and two of our five directors are employees of Invesco. Our management agreement with our Manager was negotiated between related parties and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party.

Termination of the management agreement with our Manager without cause is difficult and costly. Our independent directors will review our Manager's performance and the management fees annually and, following the initial two-year term, the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors based upon: (1) our Manager's unsatisfactory performance that is materially detrimental to us, or (2) a determination that the management fees payable to our Manager are not fair, subject to our Manager's right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of our independent directors. Our Manager will be provided 180 days prior notice of any such termination. Additionally, upon such a termination, the management agreement provides that we will pay our Manager a termination fee equal to three times the sum of the average annual management fee received by our Manager during the prior 24-month period before such termination, calculated as of the end of the most recently completed fiscal quarter. These provisions may increase the cost to us of terminating the management agreement and adversely affect our ability to terminate our Manager without cause.

Our Manager is only contractually committed to serve us until the second anniversary of the closing of our IPO, or July 1, 2011. Thereafter, the management agreement is renewable for one-year terms; provided, however, that our Manager may terminate the management agreement annually upon 180 days prior notice. If the management agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan.

Pursuant to the management agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the management agreement, our Manager, its officers, shareholders, members, managers, partners, directors and personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager will not be liable to us, any subsidiary of ours, our directors, our shareholders or any subsidiary's shareholders or partners for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement, as determined by a final non-appealable order of a court of competent jurisdiction. We have agreed to indemnify our Manager, its officers, shareholders, members, managers, directors and personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement.

Our board of directors approved very broad investment guidelines for our Manager and does not approve each investment and financing decision made by our Manager.

Our Manager is authorized to follow very broad investment guidelines. Our board of directors will periodically review our investment guidelines and our investment portfolio but does not, and is not required to, review all of our proposed investments, except that an investment in a security structured or issued by an entity managed by Invesco must be approved by a majority of our independent directors prior to such investment. In addition, in conducting periodic reviews, our board of directors may rely primarily on information provided to them by our Manager. Furthermore, our Manager may use complex strategies, and transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager has great latitude within the broad parameters of our investment guidelines in determining the types and amounts of Agency RMBS, non-Agency RMBS, CMBS and mortgage loans it may decide are attractive investments for us, which could result in investment returns that are substantially below expectations or that result in losses, which would materially and adversely affect our business operations and results. Further, decisions made and investments and financing arrangements entered into by our Manager may not fully reflect the best interests of our shareholders.

Risks Related to Our Company

There can be no assurance that the actions of the U.S. government, Federal Reserve, U.S. Treasury and other governmental and regulatory bodies for the purpose of stabilizing the financial markets, including the establishment of the TALF and the PPIP, or market response to those actions, will achieve the intended effect, and our business may not benefit from these actions; further government actions or the cessation or curtailment of current U.S. government programs and/or participation in the mortgage and securities markets could adversely impact us.

In response to the financial issues affecting the banking system and the financial markets and going concern threats to investment banks and other financial institutions, the U.S. government, Federal Reserve and U.S. Treasury and other governmental and regulatory bodies have taken action to stabilize the financial markets. Significant measures include: the enactment of the Emergency Economic Stabilization Act of 2008, or the EESA, to, among other things, establish the Troubled Asset Relief Program, or TARP; the enactment of the Housing and Economic Recovery Act of 2008, or the HERA, which established a new regulator for Fannie Mae and Freddie Mac; and the establishment of the TALF and the PPIP.

There can be no assurance that the EESA, HERA, TALF, PPIP or other recent U.S. government actions will have a beneficial impact on the financial markets, including on current extreme levels of volatility. To the extent the market does not respond favorably to these initiatives or these initiatives do not function as intended, our business may not receive the anticipated positive impact from the legislation. There can also be no assurance that we will continue to be eligible to participate in programs established by the U.S. government such as the TALF or the PPIP or, if we remain eligible, that we will be able to utilize them successfully or at all. In addition, because the programs are designed, in part, to restart the market for certain of our target assets, the establishment of these programs may result in increased competition for attractive opportunities in our target assets. It is also possible that our competitors may utilize the programs which would provide them with attractive debt and equity capital funding from the U.S. government. In addition, the U.S. government, the Federal Reserve, the U.S. Treasury and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis. However, there can be no assurance that the U.S. government, the Federal Reserve, the U.S. Treasury and other governmental and regulatory bodies will not eliminate or curtail current U.S. government programs and/or participation in the mortgage and securities markets. We cannot predict whether or when such actions may occur, and such actions could have a dramatic impact on our business, results of operations and financial condition.

17

We may change any of our strategies, policies or procedures without shareholder consent.

We may change any of our strategies, policies or procedures with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions at any time without the consent of our shareholders, which could result in an investment portfolio with a different risk profile. A change in our investment strategy may increase our exposure to interest rate risk, default risk and real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this Report. These changes could adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our shareholders.

We have a limited operating history and may not be able to successfully operate our business or generate sufficient revenue to make or sustain distributions to our shareholders.

We were organized in June 2008 and commenced operations upon completion of our IPO on July 1, 2009. We cannot assure you that we will be able to operate our business successfully or execute our operating policies and strategies as described in this Report. The results of our operations depend on several factors, including the availability of opportunities for the acquisition of assets, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the financial markets and economic conditions.

We are highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.

Our business is highly dependent on communications and information systems of Invesco. Any failure or interruption of Invesco's systems could cause delays or other problems in our securities trading activities, which could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our shareholders.

Maintenance of our 1940 Act exemption imposes limits on our operations.

The company conducts its operations so as not to become regulated as an investment company under the 1940 Act. Because the company is a holding company that conducts its businesses through the operating partnership and its wholly owned or majority-owned subsidiaries, the securities issued by these subsidiaries that are excepted from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, together with any other investment securities the operating partnership may own, may not have a combined value in excess of 40% of the value of the operating partnership's total assets on an unconsolidated basis which we refer to as the 40% test. This requirement limits the types of businesses in which we may engage through our subsidiaries. IAS Asset I LLC and certain of the operating partnership's other subsidiaries that we may form in the future intend to rely upon the exemption from registration as an investment company under the 1940 Act pursuant to Section 3(c)(5)(C) of the 1940 Act, which is available for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exemption generally requires that at least 55% of our subsidiaries' portfolios must be comprised of qualifying assets and at least another 25% of each of their portfolios must be comprised of real estate-related assets under the 1940 Act (and no more than 20% comprised of miscellaneous assets). Qualifying assets for this purpose include mortgage loans and other assets, such as whole pool Agency and non-Agency RMBS, that the SEC staff in various no-action letters has determined are the functional equivalent of mortgage loans for the purposes of the 1940 Act. We treat as real estate-related assets CMBS, debt and equity securities of companies primarily engaged in real estate businesses, agency partial pool certificates and securities issued by pass-through entities of which substantially all of the assets consist of qualifying assets and/or real estate-related assets. IAS Asset I LLC invests in the Invesco PPIP Fund.

18

We treat IAS Asset I LLC's investment in the Invesco PPIP Fund as a "real estate-related asset" for purposes of the Section 3(c)(5)(C) analysis. As a result, IAS Asset I LLC can invest no more than 25% of its assets in the Invesco PPIP and other real estate-related assets. We note that the SEC has not provided any guidance on the treatment of interests in PPIFs as real estate-related assets and any such guidance may require us to change our strategy. We may need to adjust IAS Asset I LLC's assets and strategy in order for it to continue to rely on Section 3(c)(5)(C) for its 1940 Act exemption. Any such adjustment in IAS Asset I LLC's assets or strategy is not expected to have a material adverse effect on our business or strategy. Although we monitor our portfolio periodically and prior to each investment acquisition, there can be no assurance that we will be able to maintain this exemption from registration for each of these subsidiaries. The legacy securities PPIF formed and managed by our Manager or one of its affiliates relies on Section 3(c)(7) for its 1940 Act exemption.

IMC Investments I LLC was organized as a special purpose subsidiary of the operating partnership that borrows under the TALF. This subsidiary relies on Section 3(c)(7) for its 1940 Act exemption and, therefore, the operating partnership's interest in this TALF subsidiary would constitute an "investment security" for purposes of determining whether the operating partnership passes the 40% test. We may in the future organize one or more TALF subsidiaries that seek to rely on the 1940 Act exemption provided to certain structured financing vehicles by Rule 3a-7. Any such TALF subsidiary would need to be structured to comply with any guidance that may be issued by the Division of Investment Management of the SEC on the restrictions contained in Rule 3a-7. The company expects that the aggregate value of the operating partnership's interests in TALF subsidiaries that seek to rely on Rule 3a-7 will comprise less than 20% of the operating partnership's (and, therefore, the company's) total assets on an unconsolidated basis.

To the extent that we organize subsidiaries that rely on Rule 3a-7 for an exemption from the 1940 Act, these subsidiaries will need to comply with the restrictions contained in this Rule. In general, Rule 3a-7 exempts from the 1940 Act issuers that limit their activities as follows:

- the issuer issues securities the payment of which depends primarily on the cash flow from "eligible assets," which include many of the types of assets that we acquire in our TALF fundings, that by their terms convert into cash within a finite time period;

- the securities sold are fixed income securities rated investment grade by at least one rating agency (fixed income securities which are unrated or rated below investment grade may be sold to institutional accredited investors and any securities may be sold to "qualified institutional buyers" and to persons involved in the organization or operation of the issuer);

- the issuer acquires and disposes of eligible assets (1) only in accordance with the agreements pursuant to which the securities are issued, (2) so that the acquisition or disposition does not result in a downgrading of the issuer's fixed income securities and (3) the eligible assets are not acquired or disposed of for the primary purpose of recognizing gains or decreasing losses resulting from market value changes; and

- unless the issuer is issuing only commercial paper, the issuer appoints an independent trustee, takes reasonable steps to transfer to the trustee an ownership or perfected security interest in the eligible assets, and meets rating agency requirements for commingling of cash flows.

In addition, in certain circumstances, compliance with Rule 3a-7 may also require, among other things that the indenture governing the subsidiary include additional limitations on the types of assets the subsidiary may sell or acquire out of the proceeds of assets that mature, are refinanced or otherwise sold, on the period of time during which such transactions may occur, and on the level of transactions that may occur. In light of the requirements of Rule 3a-7, our ability to manage assets held in a special purpose subsidiary that complies with Rule 3a-7 will be limited and we may not be able to purchase or sell assets owned by that subsidiary when we would otherwise desire to do so, which could lead to losses.

The determination of whether an entity is a majority-owned subsidiary of our company is made by us. The 1940 Act defines a majority-owned subsidiary of a person as a company 50% or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority-owned subsidiary of such person. The 1940 Act further defines voting securities as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. We treat companies in which we own at least a majority of the outstanding voting securities as majority-owned subsidiaries for purposes of the 40% test. We have not requested the SEC to approve our treatment of any company as a majority-owned subsidiary and the SEC has not done so. If the SEC were to disagree with our treatment of one or more companies as majority-owned subsidiaries, we would need to adjust our strategy and our assets in order to continue to pass the 40% test. Any such adjustment in our strategy could have a material adverse effect on us.

Qualification for exemption from registration under the 1940 Act will limit our ability to make certain investments. For example, these restrictions will limit the ability of our subsidiaries to invest directly in mortgage-backed securities that represent less than the entire ownership in a pool of mortgage loans, debt and equity tranches of securitizations and certain asset-backed securities and real estate companies or in assets not related to real estate.

There can be no assurance that the laws and regulations governing the 1940 Act status of REITs, including the Division of Investment Management of the SEC providing more specific or different guidance regarding these exemptions, will not change in a manner that adversely affects our operations. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon such exclusions, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies we have chosen. If we, the operating partnership or its subsidiaries fail to maintain an exception or exemption from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions which could have an adverse effect on our business and the market price for our shares of common stock.

Risks Related to Financing and Hedging

We use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our shareholders, as well as increase losses when economic conditions are unfavorable.

We use leverage to finance our assets through borrowings from repurchase agreements, borrowings under programs established by the U.S. government such as the TALF, and other secured and unsecured forms of borrowing and we contribute capital to funds that receive financing under the PPIP. Although we are not required to maintain any particular debt-to-equity leverage ratio, the amount of leverage we may deploy for particular assets will depend upon our Manager’s assessment of the credit and other risks of those assets. As of December 31, 2009, our total leverage, on a debt-to-equity basis, was 3.0 times, which consisted of 13.6 times on our Agency RMBS assets and 3.9 times on our CMBS. As of December 31, 2009, our non-Agency RMBS had no leverage. We consider these leverage ratios to be prudent for these asset classes.

The capital and credit markets have been experiencing extreme volatility and disruption since July 2007. In the last year, the volatility and disruption have reached unprecedented levels. In a large number of cases, the markets have exerted downward pressure on stock prices and credit capacity for issuers. Our access to capital depends upon a number of factors over which we have little or no control, including:

- general market conditions;
- the market’s view of the quality of our assets;

- the market's perception of our growth potential;
- our eligibility to participate in and access capital from programs established by the U.S. government;
- our current and potential future earnings and cash distributions; and
- the market price of the shares of our capital stock.

The current weakness in the financial markets, the residential and commercial mortgage markets and the economy generally could adversely affect one or more of our potential lenders and could cause one or more of our potential lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing. Current market conditions have affected different types of financing for mortgage-related assets to varying degrees, with some sources generally being unavailable, others being available but at a higher cost, while others being largely unaffected. For example, in the repurchase agreement market, non-Agency RMBS have been more difficult to finance than Agency RMBS. In connection with repurchase agreements, financing rates and advance rates, or haircut levels, have also increased. Repurchase agreement counterparties have taken these steps in order to compensate themselves for a perceived increased risk due to the illiquidity of the underlying collateral. In some cases, margin calls have forced borrowers to liquidate collateral in order to meet the capital requirements of these margin calls, resulting in losses.

The return on our assets and cash available for distribution to our shareholders may be reduced to the extent that market conditions prevent us from leveraging our assets or cause the cost of our financing to increase relative to the income that can be derived from the assets acquired. Our financing costs will reduce cash available for distributions to shareholders. We may not be able to meet our financing obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to liquidation or sale to satisfy the obligations. We leverage our Agency RMBS, and may leverage our non-Agency RMBS, through repurchase agreements. A decrease in the value of these assets may lead to margin calls which we will have to satisfy. We may not have the funds available to satisfy any such margin calls and may be forced to sell assets at significantly depressed prices due to market conditions or otherwise, which may result in losses. The satisfaction of such margin calls may reduce cash flow available for distribution to our shareholders. Any reduction in distributions to our shareholders may cause the value of our common stock to decline.

As a result of recent market events, including the contraction among and failure of certain lenders, it may be more difficult for us to secure non-governmental financing.

Our results of operations are materially affected by conditions in the financial markets and the economy generally. Recently, concerns over inflation, energy price volatility, geopolitical issues, unemployment, the availability and cost of credit, the mortgage market and a declining real estate market have contributed to increased volatility and diminished expectations for the economy and markets.

Dramatic declines in the residential and commercial real estate markets, with decreasing home prices and increasing foreclosures and unemployment, have resulted in significant asset write-downs by financial institutions, which have caused many financial institutions to seek additional capital, to merge with other institutions and, in some cases, to fail. We rely on the availability of repurchase agreement financing to acquire Agency RMBS, and in some cases CMBS, on a leveraged basis. Although we use U.S. government financing to acquire certain target assets, we also seek private funding sources to acquire these assets as well. Institutions from which we seek to obtain financing may have owned or financed residential or commercial mortgage loans, real estate-related securities and real estate loans which have declined in value and caused losses as a result of the recent downturn in the markets. Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions. If these conditions persist, these institutions may become insolvent. As a result of recent market events, it may be more difficult for us to secure non-governmental financing as there are fewer institutional lenders and those remaining lenders have tightened their lending standards.

If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying security back to us at the end of the transaction term, or if the value of the underlying security has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will lose money on our repurchase transactions.

When we engage in repurchase transactions, we generally sell securities to lenders (repurchase agreement counterparties) and receive cash from these lenders. The lenders are obligated to resell the same securities back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the securities to the lender is less than the value of those securities (this difference is the haircut), if the lender defaults on its obligation to resell the same securities back to us we may incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). We would also lose money on a repurchase transaction if the value of the underlying securities has declined as of the end of the transaction term, as we would have to repurchase the securities for their initial value but would receive securities worth less than that amount. Further, if we default on one of our obligations under a repurchase transaction, the lender can terminate the transaction and cease entering into any other repurchase transactions with us. Some of our repurchase agreements contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default. Any losses we incur on our repurchase transactions could adversely affect our earnings and thus our cash available for distribution to our shareholders.

Our use or future use of repurchase agreements to finance our Agency RMBS and non-Agency RMBS may give our lenders greater rights in the event that either we or a lender files for bankruptcy.

Our borrowings or future borrowings under repurchase agreements for our Agency RMBS and non-Agency RMBS may qualify for special treatment under the U.S. Bankruptcy Code, giving our lenders the ability to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to take possession of and liquidate the assets that we have pledged under their repurchase agreements without delay in the event that we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the U.S. Bankruptcy Code may make it difficult for us to recover our pledged assets in the event that a lender party to such agreement files for bankruptcy. Therefore, our use of repurchase agreements to finance our investments exposes our pledged assets to risk in the event of a bankruptcy filing by either a lender or us.

We depend, and may in the future depend, on repurchase agreement financing to acquire Agency RMBS and non-Agency RMBS and our inability to access this funding for our Agency RMBS and non-Agency RMBS could have a material adverse effect on our results of operations, financial condition and business.

We use repurchase agreement financing as a strategy to increase the return on our assets. However, we may not be able to achieve our desired leverage ratio for a number of reasons, including if the following events occur:

- our lenders do not make repurchase agreement financing available to us at acceptable rates;
- certain of our lenders exit the repurchase market;
- our lenders require that we pledge additional collateral to cover our borrowings, which we may be unable to do; or
- we determine that the leverage would expose us to excessive risk.

Our ability to fund our Agency RMBS and non-Agency RMBS may be impacted by our ability to secure repurchase agreement financing on acceptable terms. We can provide no assurance that lenders will be willing or able to provide us with sufficient financing. In addition, because repurchase agreements are short-term commitments of capital, lenders may respond to market conditions making it more difficult for us to secure continued financing.

During certain periods of the credit cycle, lenders may curtail their willingness to provide financing.

If major market participants continue to exit the repurchase agreement financing business, the value of our Agency RMBS and non-Agency RMBS could be negatively impacted, thus reducing net shareholder equity, or book value. Furthermore, if many of our potential lenders are unwilling or unable to provide us with repurchase agreement financing, we could be forced to sell our Agency RMBS, non-Agency RMBS and assets at an inopportune time when prices are depressed. In addition, if the regulatory capital requirements imposed on our lenders change, they may be required to significantly increase the cost of the financing that they provide to us. Our lenders also may revise their eligibility requirements for the types of assets they are willing to finance or the terms of such financings, based on, among other factors, the regulatory environment and their management of perceived risk, particularly with respect to assignee liability. Moreover, the amount of financing we receive, or may in the future receive, under our repurchase agreements is directly related to the lenders' valuation of the Agency RMBS and non-Agency RMBS that secure the outstanding borrowings. Typically repurchase agreements grant the respective lender the absolute right to reevaluate the market value of the assets that secure outstanding borrowings at any time. If a lender determines in its sole discretion that the value of the assets has decreased, it has the right to initiate a margin call. A margin call would require us to transfer additional assets to such lender without any advance of funds from the lender for such transfer or to repay a portion of the outstanding borrowings. Any such margin call could have a material adverse effect on our results of operations, financial condition, business, liquidity and ability to make distributions to our shareholders, and could cause the value of our common stock to decline. We may be forced to sell assets at significantly depressed prices to meet such margin calls and to maintain adequate liquidity, which could cause us to incur losses. Moreover, to the extent we are forced to sell assets at such time, given market conditions, we may be selling at the same time as others facing similar pressures, which could exacerbate a difficult market environment and which could result in our incurring significantly greater losses on our sale of such assets. In an extreme case of market duress, a market may not even be present for certain of our assets at any price.

The current dislocations in the residential and commercial mortgage sector could cause one or more of our potential lenders to be unwilling or unable to provide us with financing for our target assets on attractive terms or at all.

The current dislocations in the residential mortgage sector have caused many lenders to tighten their lending standards, reduce their lending capacity or exit the market altogether. Further contraction among lenders, insolvency of lenders or other general market disruptions could adversely affect one or more of our potential lenders and could cause one or more of our potential lenders to be unwilling or unable to provide us with financing on attractive terms or at all. This could increase our financing costs and reduce our access to liquidity. If one or more major market participants fails or otherwise experiences a major liquidity crisis, it could negatively impact the marketability of all fixed income securities, including our target assets, and this could negatively impact the value of the assets we acquire, thus reducing our net book value. Furthermore, if many of our potential lenders are unwilling or unable to provide us with financing, we could be forced to sell our assets at an inopportune time when prices are deprem:2px;padding-right:2px;">

$
180,291

Supplemental disclosures:

Cash paid for income taxes
$
63

$
35

Cash paid for interest, net of capitalized interest of $539 and $2,147 in 2013 and 2012, respectively
$
3,940

$
2,684

Non-cash investing and financing activities:

Construction in progress additions included in accounts payable
$
5,477

$
14,054

Change in accounts payable related to construction in progress additions
$
(13,193
)

$
4,209

See accompanying notes to the condensed consolidated financial statements.

7

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, 2012	73,065,143	$448,943	$1	$(2,751)	$446,193
Cash distributions to common unitholders - Affiliates	—	(63,528)	—	—	(63,528)
Cash distributions to common unitholders – Non-affiliates	—	(37,673)	—	—	(37,673)
Share-based compensation - Affiliates	—	2,340	—	—	2,340
Issuance of units under LTIP - Affiliates	21,158	—	—	—	—
Redemption of common units	(8,253)	(193)	—	—	(193)
Net income	—	90,695	—	—	90,695
Net gains (losses) on interest rate swaps	—	—	—	667	667
Balance at September 30, 2013	73,078,048	$440,584	$1	$(2,084)	$438,501

See accompanying notes to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013
(unaudited)

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

Organization

CVR Partners, LP (referred to as "CVR Partners" or the "Partnership") is a Delaware limited partnership, formed in June 2007 by CVR Energy, Inc. (together with its subsidiaries, but excluding the Partnership and its subsidiary, "CVR Energy") to own Coffeyville Resources Nitrogen Fertilizers, LLC ("CRNF"). 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.

CVR Energy Transaction Agreement

On April 18, 2012, CVR Energy entered into a Transaction Agreement (the “Transaction Agreement”) with IEP Energy LLC and certain of its affiliates (collectively “IEP”). Pursuant to the Transaction Agreement, IEP offered (the “Offer”) to purchase all of the issued and outstanding shares of CVR Energy’s common stock (the “IEP Acquisition”) for a price of $30.00 per share in cash, without interest, less any applicable withholding taxes, plus one non-transferable contingent cash payment (“CCP”) right for each share which represented the contractual right to receive an additional cash payment per share if a definitive agreement for the sale of CVR Energy was executed on or before August 18, 2013 and such transaction closed. As no sale of CVR Energy was executed by the date outlined in the Transaction Agreement, the CCPs expired on August 19, 2013.

On May 7, 2012, IEP announced that control of CVR Energy had been acquired through the Offer. As of September 30, 2013, IEP owned approximately 82% of the shares of CVR Energy.

Operation of Partnership

Subsequent to the closing of the Partnership's initial public offering (the "Initial Public Offering"), in April 2011 and through May 27, 2013, public security holders held approximately 30% of the Partnership's common units and Coffeyville Resources, LLC ("CRLLC"), a wholly-owned subsidiary of CVR Energy, held approximately 70% of the Partnership's common units and the general partner interest.

On May 28, 2013, CRLLC completed a registered public offering (the “Secondary Offering”) whereby CRLLC sold 12,000,000 of the Partnership’s common units to the public at a price of $25.15 per unit. Additionally, the underwriters were granted an option to purchase 1,800,000 common units at the public offering price, which expired unexercised at the end of the option period. The net proceeds to CRLLC from the Secondary Offering were approximately $292.6 million, after deducting approximately $9.2 million in underwriting discounts and commissions. The Partnership did not receive any of the proceeds from the sale of common units by CRLLC. In connection with the Secondary Offering, the Partnership incurred approximately $0.5 million in offering costs.

Subsequent to the closing of the Secondary Offering and as of September 30, 2013, public security holders held approximately 47% of the Partnership's common units and CRLLC held approximately 53% of the Partnership's common units and the general partner interest.

CVR GP, LLC (“CVR GP” or the “general partner”) manages and operates the Partnership. Common unitholders have only limited voting rights on matters affecting the Partnership. In addition, common unitholders have no right to elect the general partner's directors on an annual or continuing basis.

The Partnership is operated by a combination of the general partner's senior management team and CVR Energy's senior management team pursuant to a services agreement among CVR Energy, CVR GP and the Partnership. In October 2007, the

Partnership's partners at that time entered into an amended and restated limited partnership agreement setting forth their various rights and responsibilities. The Partnership also entered into a number of agreements with CVR Energy and CVR GP to regulate certain business relations between the Partnership and the other parties thereto. See Note 15 ("Related Party Transactions") for further discussion. In connection with the Initial Public Offering, certain of these agreements, including the amended and restated limited partnership agreement, were amended and/or restated.

(2) Basis of Presentation

The accompanying condensed consolidated financial statements of CVR Partners are comprised of the operations of CRNF’s nitrogen fertilizer business. The accompanying condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”), including Article 3 of Regulation S-X, “General Instructions as to Consolidated Financial Statements.” These condensed consolidated financial statements should be read in conjunction with the December 31, 2012 audited consolidated financial statements and notes thereto included in CVR Partners’ Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the SEC on March 1, 2013.

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

In the opinion of the Partnership’s management, the accompanying condensed consolidated financial statements and related notes reflect all adjustments that are necessary to fairly present the financial position of the Partnership as of September 30, 2013 and December 31, 2012, the results of operations and comprehensive income of the Partnership for the three and nine months ended September 30, 2013 and 2012, the cash flows of the Partnership for the nine months ended September 30, 2013 and 2012 and the changes in partners’ capital for the Partnership for the nine months ended September 30, 2013.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that reflect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. Results of operations and cash flows are not necessarily indicative of the results that will be realized for the year ending December 31, 2013 or any other interim period.

(3) Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). ASU 2013-02 requires the Partnership to present information about reclassification adjustments from accumulated other comprehensive income in the financial statements in a single footnote or parenthetically on the face of the financial statements based on the source and the income statement line items affected by the reclassification. The standard is effective for interim and annual periods beginning January 1, 2013 and has been applied prospectively. The Partnership adopted this standard as of January 1, 2013. The adoption of this standard expanded the Partnership's condensed consolidated financial statement footnote disclosures.

Table of Contents
CVR Partners, LP and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2013
(unaudited)

(4) Share-Based Compensation

Certain employees of CRNF and employees of CVR Energy who perform services for the Partnership under the services agreement with CVR Energy participate in equity compensation plans of CVR Partners' affiliates. Accordingly, CVR Partners has recorded compensation expense for these plans in accordance with Staff Accounting Bulletin, or SAB Topic 1-B "Allocations of Expenses and Related Disclosures in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity" and in accordance with guidance regarding the accounting for share-based compensation granted to employees of an equity method investee. All compensation expense related to these plans for full-time employees of CVR Partners has been allocated 100% to CVR Partners. For employees covered by the services agreement with CVR Energy, the Partnership records share-based compensation relative to the percentage of time spent by each employee providing services to the Partnership as compared to the total calculated share-based compensation by CVR Energy. The Partnership is not responsible for payment of CVR Energy’s share-based compensation and all expense amounts are recorded with a corresponding offset to increase or decrease 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 share units, dividend equivalent rights, share awards and performance awards (including performance share units, performance units and performance based restricted stock). As of September 30, 2013, only grants of restricted stock units under the CVR Energy LTIP remain unvested. Individuals who are eligible to receive awards and grants under the CVR Energy LTIP include CVR Energy’s or its subsidiaries’ (including CRNF) employees, officers, consultants and directors.

Restricted Shares

Through the CVR Energy LTIP, shares of restricted common stock and restricted stock units (collectively "restricted shares") have been granted to employees of CVR Energy and CRNF. Restricted shares, when granted, were historically valued at the closing market price of CVR Energy's common stock on the date of issuance and amortized to compensation expense on a straight-line basis over the vesting period of the common stock. These restricted shares generally vest over a three-year period.

The Transaction Agreement, as described in Note 1 ("Formation of the Partnership, Organization and Nature of Business"), triggered a modification to the treatment of outstanding restricted shares under the CVR Energy LTIP. Pursuant to the Transaction Agreement, all restricted shares scheduled to vest in 2012 were converted to restricted stock units whereby the recipient received cash settlement of the offer price of $30.00 per share in cash plus one CCP upon vesting. The CCPs expired on August 19, 2013. Restricted shares scheduled to vest in 2013, 2014 and 2015 were converted to restricted stock units whereby the awards will be settled in cash upon vesting in an amount equal to the lesser of the offer price or the fair market value as determined at the most recent valuation date of December 31 of each year. As a result of the modification, additional share-based compensation of $1.9 million was recorded by the Partnership during the nine months ended September 30, 2012 to revalue unvested shares to fair value upon modification. For awards vesting subsequent to 2012, the awards will be remeasured at each subsequent reporting date until they vest.

In December 2012 and subsequent periods, restricted stock units were granted to certain employees of CVR Energy and its subsidiaries. The non-vested restricted stock units are expected to vest over three years with one-third of the award vesting each year with the exception of awards granted to certain executive officers of CVR Energy which vest over one year. Each restricted stock unit represents the right to receive, upon vesting, a cash payment equal to (a) the fair market value of one share of CVR Energy's common stock, plus (b) the cash value of all dividends declared and paid per share of CVR Energy's common stock from the grant date to and including the vesting date. The awards will be remeasured at each subsequent reporting date until they vest.

Assuming the allocation of costs from CVR Energy remains consistent with the allocation percentages in place at September 30, 2013, there was approximately $0.9 million of total unrecognized compensation cost related to restricted shares to be recognized over a weighted-average period of approximately 0.6 years. Inclusion of the vesting table is not considered meaningful due to changes in allocation percentages that occur from time to time. The unrecognized compensation expense has been determined by the number of restricted shares and respective allocation percentage for individuals for whom, as of September 30, 2013, compensation expense has been allocated to the Partnership. Compensation expense recorded for the three months ended September 30, 2013 and 2012, related to the restricted shares, was approximately $0.3 million and $0.6 million, respectively. Compensation expense recorded for the nine months ended September 30, 2013 and 2012, related to the restricted shares, was approximately $1.5 million and $3.6 million, respectively.

Long-Term Incentive Plan – CVR Partners

In connection with CVR Partners' Initial Public Offering, the board of directors of CVR Partners' general partner adopted the CVR Partners, LP Long-Term Incentive Plan ("CVR Partners LTIP"). Individuals who are eligible to receive awards under the CVR Partners LTIP include (1) CVR Partners' and its subsidiaries' employees, (2) employees of the general partner, (3) members of the board of directors of the general partner, and (4) CVR Partners' parent's employees, consultants and directors. The CVR Partners LTIP provides for the grant of options, unit appreciation rights, distribution equivalent rights, restricted units, phantom units and other unit-based awards, each in respect of common units. The maximum number of common units issuable under the CVR Partners LTIP is 5,000,000.

Through the CVR Partners LTIP, phantom and common units have been awarded to employees of the Partnership and the general partner and to members of the board of directors of the general partner. Phantom unit awards made to employees and members of the board of directors of the general partner are considered a non-employee equity based award and are required to be marked-to-market each reporting period until they vest. Awards to employees of the Partnership and the general partner vest over a three year period and awards to members of the board of directors of the general partner generally vest immediately on the grant date.

In December 2012, the board of directors of the general partner approved an amendment to modify the terms of certain phantom unit awards previously granted to employees of the Partnership and its subsidiaries. Prior to the amendment, the phantom units, when granted, were valued at the closing market price of the Partnership's common units on the date of issuance and amortized to compensation expense on a straight-line basis over the vesting period of the units.

The amendment triggered a modification to the awards by providing that the phantom units would be settled in cash rather than common units of the Partnership. For awards vesting subsequent to the amendment, the awards will be remeasured at each subsequent reporting date until they vest. As a result of the modification of the awards, the classification changed from equity-classified awards to liability-classified awards.

A summary of the common units and phantom units (collectively "Units") activity during the nine months ended September 30, 2013 is presented below:

	Units	Weighted-Average Grant Date Fair Value

Non-vested at December 31, 2012	201,812	$23.70
Granted	—	—
Vested	(21,158)	20.09
Forfeited	—	—
Non-vested at September 30, 2013	180,654	$24.12

Unrecognized compensation expense associated with the unvested common and phantom units at September 30, 2013 was approximately $1.3 million and is expected to be recognized over a weighted average period of one year. Compensation expense recorded for the three months ended September 30, 2013 and 2012 related to the awards under the CVR Partners LTIP was approximately $0 and $0.6 million, respectively. Compensation expense recorded for the nine months ended September 30, 2013 and

12

2012 related to the awards under the CVR Partners LTIP was approximately $1.0 million and $1.7 million, respectively. Compensation expense related to the awards issued to employees and members of the board of directors of the general partner under the CVR Partners LTIP has been recorded in direct operating expenses (exclusive of depreciation and amortization) - affiliates or selling, general and administrative expenses (exclusive of depreciation and amortization) — affiliates, as applicable. As of September 30, 2013 and December 31, 2012, the Partnership had a liability of $0.4 million and $0.2 million, respectively, for unvested phantom unit awards related to employees of the Partnership and its subsidiaries, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

(5) Inventories

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

Inventories consisted of the following:

	September 30, 2013	December 31, 2012
	(in thousands)	
Finished goods	$8,083	$5,234
Raw materials and precious metals	9,412	7,038
Parts and supplies	15,343	16,677
	$32,838	$28,949

(6) Property, Plant, and Equipment

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

	September 30 2013	December 31, 2012
	(in thousands)	
Land and improvements	$4,815	$2,611
Buildings and improvements	1,613	1,223
Machinery and equipment	538,696	403,682
Automotive equipment	357	357
Furniture and fixtures	360	343
Railcars	7,995	2,496
Construction in progress	11,928	132,428
	$565,764	$543,140
Less: Accumulated depreciation	150,054	131,540
Total property, plant and equipment, net	$415,710	$411,600

Capitalized interest recognized as a reduction of interest expense for the three months ended September 30, 2013 and 2012 totaled approximately $0.1 million and $0.9 million, respectively. Capitalized interest recognized as a reduction of interest expense for the nine months ended September 30, 2013 and 2012 totaled approximately $0.5 million and $2.1 million, respectively.

CVR Partners, LP and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2013
(unaudited)

(7) Partners’ Capital and Partnership Distributions

The Partnership has two types of partnership interests outstanding:

- common units; and

- a general partner interest, which is not entitled to any distributions, and which is held by the general partner.

At September 30, 2013, the Partnership had a total of 73,078,048 common units issued and outstanding, of which 38,920,000 common units were owned by CRLLC, representing approximately 53% of the total Partnership units outstanding.

The board of directors of the Partnership's general partner has adopted a policy for the Partnership to distribute all available cash generated on a quarterly basis. Cash distributions will be made to the common unitholders of record on the applicable record date, generally within 60 days after the end of each quarter. Available cash for each quarter will be determined by the board of directors of the general partner following the end of such quarter. Available cash for each quarter will generally begin with Adjusted EBITDA reduced for cash needed for net interest expense (excluding capitalized interest) and debt service and other contractual obligations, maintenance capital expenditures and, to the extent applicable, major scheduled turnaround expense incurred and reserves for future operating or capital needs that the board of directors of the general partner deems necessary or appropriate, if any. Adjusted EBITDA is defined as EBITDA (net income before interest expense, net, income tax expense, and depreciation amortization) further adjusted for the impact of non-cash share-based compensation, and, where applicable, major scheduled turnaround expense and loss on disposition of assets. Available cash for distributions may be increased by previously established cash reserves, if any, at the discretion of the board of directors of our general partner.

The following is a summary of cash distributions paid to the Partnership’s unitholders during 2013 for the respective quarters to which the distributions relate:

	December 31, 2012	March 31, 2013	June 30, 2013	Total Cash Distributions Paid in 2013
	($ in millions, expect per common unit amounts)			
Amount paid to CRLLC	$9.8	$31.1	$22.7	$63.5
Amounts paid to public unitholders	4.2	13.5	19.9	37.7
Total amount paid	$14.0	$44.6	$42.6	$101.2
Per common unit	$0.192	$0.610	$0.583	$1.385
Common units outstanding (in thousands)	73,065	73,065	73,075	

Table of Contents
CVR Partners, LP and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2013
(unaudited)

(8) Net Income Per Common Unit

The Partnership's net income is allocated wholly to the common units as the general partner does not have an economic interest. Basic and diluted net income per common unit is calculated by dividing net income by the weighted-average number of common units outstanding during the period and, when applicable, gives effect to phantom units and unvested common units granted under the CVR Partners LTIP. The common units issued during the period are included on a weighted-average basis for the days in which they were outstanding.

The following table illustrates the Partnership's calculation of net income per common unit (in thousands, except per unit information):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$19,705	$31,557	$90,695	$96,889
Net income per common unit, basic	$0.27	$0.43	$1.24	$1.32
Net income per common unit, diluted	$0.27	$0.43	$1.24	$1.32
Weighted-average common units outstanding, basic	73,076	73,045	73,070	73,037
Weighted-average common units outstanding, diluted	73,225	73,191	73,229	73,193

(9) Cost Classifications

Direct operating expenses (exclusive of depreciation and amortization) includes direct costs of labor, maintenance and services, energy and utility costs, property taxes, and environmental compliance costs as well as chemical and catalyst and other direct operating expenses. Direct operating expenses also include allocated non-cash share-based compensation expense from CVR Energy, as discussed in Note 4 (“Share-Based Compensation”). Direct operating expenses exclude depreciation and amortization of approximately $6.5 million and $5.2 million for the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, direct operating expenses exclude depreciation and amortization of approximately $18.3 million and $15.7 million, respectively.

(10) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

	September 30, 2013	December 31, 2012
	(in thousands)	
Property taxes	$1,979	$7,116
Other current liabilities (interest rate swap)	894	861
Accrued interest	458	500
Other accrued expenses and liabilities (1)	1,541	1,003
	$4,872	$9,480

(1) Other accrued expenses and liabilities include amounts owed by the Partnership to Coffeyville Resources Refining & Marketing, LLC (“CRRM”), a related party, under the feedstock and shared services agreement. See Note 15 (“Related Party Transactions”) for additional discussion of amounts the Partnership owes related to the feedstock and shared services agreement.

15

(11) Credit Facility

Concurrently with the closing of the Initial Public Offering, on April 13, 2011, CRNF as borrower and CVR Partners, as guarantor, entered into a credit facility with a group of lenders including Goldman Sachs Lending Partners LLC, as administrative and collateral agent. The credit facility includes a term loan facility of $125.0 million and a revolving credit facility of $25.0 million with an uncommitted incremental facility of up to $50.0 million. No amounts were outstanding under the revolving credit facility at September 30, 2013. There is no scheduled amortization and the credit facility matures in April 2016. The revolving credit facility is used to finance on-going working capital, capital expenditures, letters of credit issuances and general needs of the Partnership.

Borrowings under the credit facility bear interest at either a Eurodollar rate or a base rate plus in either case a margin based on a pricing grid determined by the trailing four quarter leverage ratio. The margin for borrowings under the credit facility ranges from 3.50% to 4.25% for Eurodollar loans and 2.50% to 3.25% for base rate loans. Currently, the interest rate is either the Eurodollar rate plus a margin of 3.50% or, for base rate loans, the prime rate plus 2.50%. Under its terms, the lenders under the credit facility were granted a first priority security interest (subject to certain customary exceptions) in substantially all of the assets of CVR Partners and CRNF.

The credit facility requires CVR Partners to maintain a minimum interest coverage ratio and a maximum leverage ratio and contains customary covenants for a financing of this type that limit, subject to certain exceptions, the incurrence of additional indebtedness or guarantees, the creation of liens on assets, and the Partnership’s ability to dispose of assets, make restricted payments, investments or acquisitions, enter into sale-leaseback transactions or enter into affiliate transactions. The credit facility provides that the Partnership can make distributions to holders of the Partnership's common units provided the Partnership is in compliance with its leverage ratio and interest coverage ratio covenants on a pro forma basis after giving effect to such distribution and there is no default or event of default under the facility.

As of September 30, 2013, CVR Partners was in compliance with the covenants contained in the credit facility.

(12) Interest Rate Swap

On June 30 and July 1, 2011, CRNF entered into two floating-to-fixed interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of its $125.0 million floating rate term debt which matures in April 2016. See Note 11 (“Credit Facility”). The aggregate notional amount covered under these agreements, which commenced on August 12, 2011 and expire on February 12, 2016, totals $62.5 million (split evenly between the two agreement dates). Under the terms of the interest rate swap agreement entered into on June 30, 2011, CRNF will receive a floating rate based on three month LIBOR and pay a fixed rate of 1.94%. Under the terms of the interest rate swap agreement entered into on July 1, 2011, CRNF will receive a floating rate based on three month LIBOR and pay a fixed rate of 1.975%. Both swap agreements are settled every 90 days. The effect of these swap agreements is to lock in a fixed rate of interest of approximately 1.96% plus the applicable margin paid to lenders over three month LIBOR as calculated under the credit agreement. At September 30, 2013, the effective rate was approximately 4.57%. The agreements were designated as cash flow hedges at inception and accordingly, the effective portion of the gain or loss on the swap is reported as a component of accumulated other comprehensive income (loss) (“AOCI”), and will be reclassified into interest expense when the interest rate swap transaction affects earnings. The ineffective portion of the gain or loss will be recognized immediately in current interest expense. The realized loss on the interest rate swap reclassified from AOCI into interest expense and other financing costs on the Condensed Consolidated Statements of

Operations was $0.3 million and $0.2 million for the three months ended September 30, 2013 and 2012, respectively, and $0.8 million and $0.7 million for the nine months ended September 30, 2013 and 2012, respectively.

The interest rate swap agreements held by the Partnership also provide for the right to setoff. However, as the interest rate swaps are in a liability position, there are no amounts offset in the Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012.

(13) Income Taxes

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

Table of Contents

CVR Partners, LP and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2013
(unaudited)

(14) Commitments and Contingencies

Leases and Unconditional Purchase Obligations

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

	Operating Leases	Unconditional Purchase Obligations(1)
	(in thousands)	
Three months ending December 31, 2013	$1,346	$5,105
Year ending December 31, 2014	5,412	14,335
Year ending December 31, 2015	5,190	13,538
Year ending December 31, 2016	4,765	13,782
Year ending December 31, 2017	2,826	14,030
Thereafter	6,931	105,440
	$26,470	$166,230

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

CRNF leases railcars and facilities under long-term operating leases. Lease expense for the three months ended September 30, 2013 and 2012 totaled approximately $1.2 million and $1.1 million, respectively. Lease expense for the nine months ended September 30, 2013 and 2012 totaled approximately $3.6 million and $3.2 million, respectively. The lease agreements have various remaining terms. Some agreements are renewable, at CRNF's option, for additional periods. It is expected, in the ordinary course of business, that leases will be renewed or replaced as they expire.

CRNF has an agreement with the City of Coffeyville (the "City") pursuant to which it must make a series of future payments for the supply, generation and transmission of electricity based upon agreed upon rates. This agreement expires on July 1, 2019.

During 2005, CRNF entered into the Amended and Restated On-Site Product Supply Agreement with The BOC Group, Inc. (as predecessor in interest to Linde LLC). Pursuant to the agreement, which expires in 2020, CRNF is required to take as available and pay approximately $300,000 per month, which amount is subject to annual inflation adjustments, for the supply of oxygen and nitrogen to the fertilizer operation. Expenses associated with this agreement are included in direct operating expenses (exclusive of depreciation and amortization) and for the three months ended September 30, 2013 and 2012 totaled approximately $0.9 million and $0.3 million, respectively. For the nine months ended September 30, 2013 and 2012, these expenses totaled approximately $2.9 million and $3.2 million, respectively.

The Partnership entered into a pet coke supply agreement with HollyFrontier Corporation which became effective on March 1, 2012. The initial term ends in December 2013 and the agreement is subject to renewal. Expenses related to the pet coke supply agreement totaled approximately $1.3 million and $1.3 million for the three months ended

September 30, 2013 and 2012, respectively, which are recorded in cost of product sold (exclusive of depreciation and amortization). For the nine months ended September 30, 2013 and 2012, these expenses totaled approximately $3.5 million and $3.6 million, respectively.

17

Table of Contents

Litigation

From time to time, the Partnership is involved in various lawsuits arising in the normal course of business, including matters such as those described below under "Environmental, Health, and Safety ("EHS") Matters." Liabilities related to such litigation are recognized when the related costs are probable and can be reasonably estimated. Management believes the Partnership has accrued for losses for which it may ultimately be responsible. It is possible that management's estimates of the outcomes will change within the next year due to uncertainties inherent in litigation and settlement negotiations. In the opinion of management, the ultimate resolution of any other litigation matters is not expected to have a material adverse effect on the Partnership's results of operations or financial condition. There can be no assurance that management's beliefs or opinions with respect to liability for potential litigation matters are accurate.

CRNF received a ten year property tax abatement from Montgomery County, Kansas in connection with the construction of the nitrogen fertilizer plant that expired on December 31, 2007. In connection with the expiration of the abatement, the county reclassified and reassessed CRNF's nitrogen fertilizer plant for property tax purposes. The reclassification and reassessment resulted in an increase in CRNF's annual property tax expense by an average of approximately $10.7 million per year for the years ended December 31, 2008 and 2009, $11.7 million for the year ended December 31, 2010, $11.4 million for the year ended December 31, 2011, and $11.3 million for the year ended December 31, 2012. CRNF protested the classification and resulting valuation for each of those years to the Kansas Court of Tax Appeals ("COTA"), followed by an appeal to the Kansas Court of Appeals. However, CRNF fully accrued and paid the property taxes the county claimed were owed for the years ended December 31, 2008 through 2012. The Kansas Court of Appeals, in a memorandum opinion dated August 9, 2013, reversed the COTA decision in part and remanded the case to COTA, instructing COTA to classify each asset on an asset by asset basis instead of making a broad determination that the entire plant was real property as COTA did originally. CRNF believes that when that asset by asset determination is done, the majority of the plant will be classified as personal property which would result in significantly lower property taxes for CRNF for 2008 and for those years after the conclusion of the property tax settlement noted below as compared to the taxes paid by CRNF prior to the settlement. The County filed a motion for rehearing with the Kansas Court of Appeals seeking reconsideration of the Court's August 9, 2013 decision and that motion was denied. The County has also filed a petition for review with the Kansas Supreme Court and that petition is pending.

On February 25, 2013, Montgomery County and CRNF agreed to a settlement for tax years 2009 through 2012, which will lower CRNF's property taxes by about $10.5 million per year for tax years 2013 through 2016 based on current mill levy rates. In addition, the settlement provides that Montgomery County will support CRNF's application before COTA for a ten year tax exemption for the UAN expansion. Finally, the settlement provides that CRNF will continue its appeal of the 2008 reclassification and reassessment as discussed above. CRNF has estimated and accrued property taxes for the three and nine months ended September 30, 2013 based on the lower rates resulting from the settlement.

Environmental, Health, and Safety ("EHS") Matters

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

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

From time to time, the United States Environmental Protection Agency ("EPA") has conducted inspections and issued information requests to CRNF with respect to CRNF's compliance with the Clean Air Act's "Risk Management Program" and the release reporting requirements under the Comprehensive Environmental Response, Compensation, and Liability Act and the Emergency Planning and Community Right-to-Know Act. These previous investigations have resulted in the issuance of preliminary findings regarding CRNF's compliance status. In the fourth quarter of 2010, following CRNF's reported release of ammonia from its cooling water system and the rupture of its UAN vessel (which released ammonia and other regulated substances) the EPA conducted its most recent inspection and issued an additional request for information to CRNF. The EPA has not made any formal claims against CRNF and CRNF has not accrued for any liability associated with the investigations or releases.

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

EHS expenditures are capitalized when such expenditures are expected to result in future economic benefits. EHS capital expenditures for the three months ended September 30, 2013 and 2012 were approximately $22,000 and $64,000, respectively. EHS capital expenditures for the nine months ended September 30, 2013 and 2012 were approximately $34,000 and $0.3 million, respectively. These expenditures were incurred to improve the environmental compliance and efficiency of the operations. CRNF believes it is in substantial compliance with existing EHS rules and regulations. There can be no assurance that the EHS matters described above or other EHS matters which may develop in the future will not have a material adverse effect on the business, financial condition, or results of operations of the Partnership.

(15) Related Party Transactions

Related Party Agreements

In connection with the formation of CVR Partners and the initial public offering of CVR Energy in October 2007, CVR Partners and CRNF entered into several agreements with CVR Energy and its subsidiaries (including CRRM) that govern the business relations among CVR Partners, its general partner and CRNF on the one hand, and CVR Energy and its subsidiaries, on the other hand. Certain of the agreements described below were amended and restated on April 13, 2011 in connection with CVR Partners' Initial Public Offering. Amounts owed to CVR Partners and CRNF from CVR Energy and its subsidiaries with respect to these agreements are included in prepaid expenses and other current assets, and other long-term assets, on the Condensed Consolidated Balance Sheets. Conversely, amounts owed to CVR Energy and its subsidiaries by CVR Partners and CRNF with respect to these agreements are included in accounts payable, accrued expenses and other current liabilities, and other long-term liabilities, on the Partnership's Condensed Consolidated Balance Sheets.

CVR Refining, LP (the "Refining Partnership"), an affiliate of the Partnership, completed its initial public offering (the "Refining Partnership IPO") on January 23, 2013. CVR Energy currently indirectly owns the general partner of the Refining Partnership and the majority of the Refining Partnership's outstanding common units. Although certain of CVR Energy's subsidiaries that are parties to the related party agreements discussed below were contributed to the Refining Partnership in connection with the Refining Partnership's IPO and are now subsidiaries of the Refining Partnership, the Refining Partnership IPO had no impact on the Partnership's business relations with these subsidiaries.

Feedstock and Shared Services Agreement

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

Pursuant to the feedstock and shared services agreement, CRNF and CRRM have the obligation to transfer excess hydrogen to one another. Net monthly sales of hydrogen to CRRM have been reflected as net sales for CVR Partners. Net monthly receipts of hydrogen from CRRM have been reflected in cost of product sold (exclusive of depreciation and amortization) for CVR Partners. For the three months ended September 30, 2013 and 2012, the net sales generated from the sale of hydrogen to CRRM were approximately $0.8 million and $0.3 million, respectively. For the nine months ended September 30, 2013 and 2012, the net sales generated from the sale of hydrogen to CRRM were approximately $4.7 million and $6.0 million, respectively. For the three months ended September 30, 2013 and 2012, CVR Partners also recognized $0.3 million and $0.1 million, respectively, of cost of product sold (exclusive of depreciation and amortization) related to the transfer of excess hydrogen from the Coffeyville refinery. For the nine months ended September 30, 2013 and 2012, CVR Partners recognized $0.6 million and $0.2 million, respectively, of cost of product sold (exclusive of depreciation and amortization) related to the transfer of excess hydrogen from the Coffeyville refinery. At September 30, 2013 and December 31, 2012, there were approximately $0.8 million and $0.2 million, respectively, of receivables included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets associated with unpaid balances related to hydrogen sales.

The agreement provides that both parties must deliver high-pressure steam to one another under certain circumstances. Net reimbursed or (paid) recorded in direct operating expenses during the three months ended September 30, 2013 and 2012 were $8,000 and $2,000, respectively, related to high-pressure steam. Net reimbursed or (paid) recorded in direct operating expenses during the nine months ended September 30, 2013 and 2012 were $(10,000) and $(42,000), respectively, related to high-pressure steam. Reimbursements or paid amounts for each period on a gross basis were nominal.

CRNF is also obligated to make available to CRRM any nitrogen produced by the Linde air separation plant that is not required for the operation of the nitrogen fertilizer plant, as determined by CRNF in a commercially reasonable manner. Reimbursed direct operating expenses associated with nitrogen for the three months ended September 30, 2013 and 2012, were approximately $0.1 million and $0.4 million, respectively. Reimbursed direct operating expenses associated with nitrogen for the nine months ended September 30, 2013 and 2012, were approximately $0.4 million and $1.3 million, respectively. No amounts were paid by CRNF to CRRM for any of the periods presented.

The agreement also provides a mechanism pursuant to which CRNF transfers a tail gas stream to CRRM. CRNF receives the benefit of eliminating a waste gas stream and recovers the fuel value of the tail gas system. For the three months ended September 30, 2013 and 2012, there were net sales of approximately $(44,000) and $23,000, respectively, generated from the sale of tail gas to CRRM. For the nine months ended September 30, 2013 and 2012, there were net sales of approximately $(12,000) and $57,000, respectively, generated from the sale of tail gas to CRRM.

In April 2011, in connection with the tail gas stream, CRRM installed a pipe between the Coffeyville, Kansas refinery and the nitrogen fertilizer plant to transfer the tail gas. CRNF agreed to pay CRRM the cost of installing the pipe over the next three years and, in 2014, provide an additional 15% to cover the cost of capital. At September 30, 2013 and December 31, 2012, there were assets of approximately $0.2 million and $0.2 million included in other current assets, approximately $1.2 million and $1.3 million included in other non-current assets, an offset liability of approximately $0.4 million and $0.5 million in other current liabilities and approximately $0.1 million and $0.4 million of other non-current liabilities in the Condensed Consolidated Balance Sheets.

The agreement also provides that both CRNF and CRRM must deliver instrument air to one another in some circumstances. CRNF must make instrument air available for purchase by CRRM at a minimum flow rate, to the extent produced by the Linde air separation plant and available to it. The price for such instrument air is $18,000 per month, prorated according to the number of days of use per month, subject to certain adjustments, including adjustments to reflect changes in the Partnership’s electric bill. To the extent that instrument air is not available from the Linde air separation plant and is available from CRRM, CRRM is required to make instrument air available to the Partnership for purchase at a price of $18,000 per month, prorated according to the number of days of use per month, subject to certain adjustments, including adjustments to reflect changes in CRRM's electric bill. There were no reimbursed direct operating expenses related to instrument air recorded for the three and nine months ended September 30, 2013 and 2012.

CRNF also provided finished product tank capacity to CRRM under the agreement. Approximately $0.1 million and $0 was reimbursed by CRRM for the use of tank capacity for the three months ended September 30, 2013 and 2012, respectively. Approximately $0.3 million and $0.1 million were reimbursed by CRRM for the use of tank capacity for the nine months ended September 30, 2013 and 2012, respectively. These reimbursements were recorded as reductions to direct operating expenses.

When CRNF retains excess sulfur from its operations, CRRM agrees to handle such sulfur in exchange for a fee payable to transport, store and sell the excess sulfur when possible. CRRM reimburses CRNF for any excess in the sales price of the sulfur above their costs. Approximately $24,000 and $89,000 were reimbursed by CRRM for the sale of excess sulfur for the three and nine months ended September 30, 2013. There were no reimbursements in 2012. These reimbursements were recorded as reductions to direct operating expenses.

Table of Contents
CVR Partners, LP and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2013
(unaudited)

The agreement has an initial term of 20 years, which will be automatically extended for successive five year renewal periods. Either party may terminate the agreement, effective upon the last day of a term, by giving notice no later than three years prior to a renewal date. The agreement will also be terminable by mutual consent of the parties or if one party breaches the agreement and does not cure within applicable cure periods and the breach materially and adversely affects the ability of the terminating party to operate its facility. Additionally, the agreement may be terminated in some circumstances if substantially all of the operations at the nitrogen fertilizer plant or the Coffeyville, Kansas refinery are permanently terminated, or if either party is subject to a bankruptcy proceeding or otherwise becomes insolvent.

At September 30, 2013 and December 31, 2012, receivables of $0.1 million and $0.2 million, respectively, were included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets associated for amounts yet to be received related to components of the feedstock and shared services agreement other than amounts related to hydrogen sales and pet coke purchases. At September 30, 2013 and December 31, 2012, payables of $0.8 million and $0.4 million, respectively, were included in accounts payable on the Condensed Consolidated Balance Sheets associated with unpaid balances related to components of the feedstock and shared services agreement, other than amounts related to hydrogen sales and pet coke purchases.

Coke Supply Agreement

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

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

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

The agreement has an initial term of 20 years and will be automatically extended for successive five year renewal periods. Either party may terminate the agreement by giving notice no later than three years prior to a renewal date. The agreement is also terminable by mutual consent of the parties or if a party breaches the agreement and does not cure within applicable cure periods. Additionally, the agreement may be terminated in some circumstances if substantially all of the operations at the nitrogen fertilizer plant or the Coffeyville, Kansas refinery are permanently terminated, or if either party is subject to a bankruptcy proceeding or otherwise becomes insolvent.

Cost of pet coke associated with the transfer of pet coke from CRRM to CRNF was approximately $2.2 million and $2.5 million for the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, cost of pet coke associated with the transfer of pet coke from CRRM to CRNF was approximately $7.4 million and $7.8 million, respectively. Payables of $0.3 million and $0.6 million related to the coke supply agreement were included in accounts payable on the Condensed Consolidated Balance Sheets at September 30, 2013 and December 31, 2012, respectively.

Table of Contents
CVR Partners, LP and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2013
(unaudited)

Terminal Operating and Lease Agreement

On May 4, 2012, CRNF entered into an operating and lease agreement with Coffeyville Resources Terminal, LLC ("CRT"), under which it leases CRT's premises located at Phillipsburg, Kansas which it uses as a UAN terminal. The initial term of the agreement will expire in May 2032, provided, however, that CRNF may terminate the lease at any time during the initial term by providing 180 days prior written notice. In addition, this agreement will automatically renew for successive five-year terms, provided that CRNF may terminate the agreement during any renewal term with at least 180 days written notice. CRNF will pay CRT $1.00 per year for rent, $4.00 per ton of UAN placed into the terminal and $4.00 per ton of UAN taken out of the terminal. For the three months ended September 30, 2013 and 2012, expense incurred related to the terminal operating and lease agreement totaled approximately $28,000 and $12,000, respectively. For the nine months ended September 30, 2013 and 2012, expense incurred related to the terminal operating and lease agreement totaled approximately $83,000 and $12,000, respectively.

Lease Agreement

CRNF entered into a lease agreement with CRRM under which it leases certain office and laboratory space. The initial term of the lease will expire in October 2017, provided, however, that CRNF may terminate the lease at any time during the initial term by providing 180 days prior written notice. In addition, CRNF has the option to renew the lease agreement for up to five additional one-year periods by providing CRRM with notice of renewal at least 60 days prior to the expiration of the then existing term. For the three months ended September 30, 2013 and 2012, expense incurred related to the use of the office and laboratory space totaled approximately $27,000 and $26,000, respectively. For the nine months ended September 30, 2013 and 2012, expense incurred related to the use of the office and laboratory space totaled approximately $80,000 and $78,000, respectively. There were no amounts included in accounts payable on the Condensed Consolidated Balance Sheets associated with unpaid balances related to the lease agreement at September 30, 2013 and December 31, 2012.

Environmental Agreement

CRNF entered into an environmental agreement with CRRM which provides for certain indemnification and access rights in connection with environmental matters affecting the Coffeyville, Kansas refinery and the nitrogen fertilizer plant. Generally, both CRNF and CRRM have agreed to indemnify and defend each other and each other's affiliates against liabilities associated with certain hazardous materials and violations of environmental laws that are a result of or caused by the indemnifying party's actions or business operations. This obligation extends to indemnification for liabilities arising out of off-site disposal of certain hazardous materials. Indemnification obligations of the parties will be reduced by applicable amounts recovered by an indemnified party from third parties or from insurance coverage.

The agreement provides for indemnification in the case of contamination or releases of hazardous materials that were present but unknown at the time the agreement was entered into to the extent such contamination or releases were identified in reasonable detail through October 2012. The agreement further provides for indemnification in the case of contamination or releases which occur subsequent to the execution of the agreement.

The term of the agreement is for at least 20 years, or for so long as the feedstock and shared services agreement is in force, whichever is longer.

22

Services Agreement

CVR Partners obtains certain management and other services from CVR Energy pursuant to a services agreement between the Partnership, CVR GP and CVR Energy. Under this agreement, the Partnership's general partner has engaged CVR Energy to conduct a substantial portion of its day-to-day business operations. CVR Energy provides CVR Partners with the following services under the agreement, among others:

- services from CVR Energy's employees in capacities equivalent to the capacities of corporate executive officers, except that those who serve in such capacities under the agreement shall serve the Partnership on a shared, part-time basis only, unless the Partnership and CVR Energy agree otherwise;

- administrative and professional services, including legal, accounting services, human resources, insurance, tax, credit, finance, government affairs and regulatory affairs;

- management of the Partnership's property and the property of its operating subsidiary in the ordinary course of business;

- recommendations on capital raising activities to the board of directors of the Partnership's general partner, including the issuance of debt or equity interests, the entry into credit facilities and other capital market transactions;

- managing or overseeing litigation and administrative or regulatory proceedings, establishing appropriate insurance policies for the Partnership and providing safety and environmental advice;

- recommending the payment of distributions; and

- managing or providing advice for other projects, including acquisitions, as may be agreed by CVR Energy and the Partnership's general partner from time to time.

As payment for services provided under the agreement, the Partnership, its general partner or CRNF must pay CVR Energy (i) all costs incurred by CVR Energy or its affiliates in connection with the employment of its employees, other than administrative personnel, who provide the Partnership services under the agreement on a full-time basis, but excluding share-based compensation; (ii) a prorated share of costs incurred by CVR Energy or its affiliates in connection with the employment of its employees, including administrative personnel, who provide the Partnership services under the agreement on a part-time basis, but excluding share-based compensation, and such prorated share shall be determined by CVR Energy on a commercially reasonable basis, based on the percentage of total working time that such shared personnel are engaged in performing services for the Partnership; (iii) a prorated share of certain administrative costs, including office costs, services by outside vendors, other sales, general and administrative costs and depreciation and amortization; and (iv) various other administrative costs in accordance with the terms of the agreement, including travel, insurance, legal and audit services, government and public relations and bank charges.

Either CVR Energy or the Partnership's general partner may temporarily or permanently exclude any particular service from the scope of the agreement upon 180 days' notice and either CVR Energy or the Partnership's general partner may terminate the agreement upon at least 180 days' notice, but not more than one year's notice. Furthermore, the Partnership's general partner may terminate the agreement immediately if CVR Energy becomes bankrupt or dissolves or commences liquidation or winding-up procedures.

In order to facilitate the carrying out of services under the agreement, CVR Partners and CVR Energy have granted one another certain royalty-free, non-exclusive and non-transferable rights to use one another's intellectual property under certain circumstances.

Net amounts incurred under the services agreement for the three months ended September 30, 2013 and 2012 were approximately \$3.8 million and \$2.4 million, respectively. Of these charges approximately \$2.6 million and \$1.7 million, respectively, are included in selling, general and administrative expenses (exclusive of depreciation and amortization). In addition, \$1.2 million and \$0.7 million, respectively, are included in direct operating expenses (exclusive of depreciation and amortization). Net amounts incurred under the services agreement for the nine months ended September 30, 2013 and 2012 were approximately \$10.7 million and \$7.5 million,

Table of Contents

respectively. Of these charges approximately $7.3 million and $5.2 million, respectively, are included in selling, general and administrative expenses (exclusive of depreciation and amortization). In addition, $3.5 million and $2.3 million, respectively, are included in direct operating expenses (exclusive of depreciation and amortization). For services performed in connection with the services agreement, the Partnership recognized personnel costs of $1.2 million and $0.8 million, respectively, for the three months ended September 30, 2013 and 2012. For services performed in connection with the services agreement, the Partnership recognized personnel costs of $3.2 million and $2.4 million, respectively, for the nine months ended September 30, 2013 and 2012. At each of September 30, 2013 and December 31, 2012, payables of $2.2 million were included in accounts payable on the Condensed Consolidated Balance Sheets with respect to amounts billed in accordance with the services agreement.

GP Services Agreement

The Partnership is party to a GP Services Agreement dated November 29, 2011 between the Partnership, CVR GP and CVR Energy. This agreement allows CVR Energy to engage CVR GP, in its capacity as the Partnership's general partner, to provide CVR Energy with (i) business development and related services and (ii) advice or recommendations for such other projects as may be agreed between the Partnership's general partner and CVR Energy from time to time. As payment for services provided under the agreement, CVR Energy must pay a prorated share of costs incurred by the Partnership or its general partner in connection with the employment of the Partnership's employees who provide CVR Energy services on a part-time basis, as determined by the Partnership's general partner on a commercially reasonable basis based on the percentage of total working time that such shared personnel are engaged in performing services for CVR Energy. Pursuant to this GP Services Agreement, one of the Partnership's executive officers has performed business development services for CVR Energy from time to time.

CVR Energy is not required to pay any compensation, salaries, bonuses or benefits to any of the Partnership’s general partner’s employees who provide services to CVR Energy on a full-time or part-time basis; the Partnership will continue to pay their compensation.

Either CVR Energy or the Partnership’s general partner may temporarily or permanently exclude any particular service from the scope of the agreement upon 180 days’ notice. The Partnership’s general partner also has the right to delegate the performance of some or all of the services to be provided pursuant to the agreement to one of its affiliates or any other person or entity, though such delegation does not relieve the Partnership’s general partner from its obligations under the agreement. Either CVR Energy or the Partnership’s general partner may terminate the agreement upon at least 180 days’, but not more than one year’s, notice. Furthermore, CVR Energy may terminate the agreement immediately if the Partnership, or its general partner, become bankrupt, or dissolve and commence liquidation or winding-up.

Limited Partnership Agreement

In connection with the Initial Public Offering, CVR GP and CRLLC entered into the second amended and restated agreement of limited partnership of the Partnership, dated April 13, 2011.

The Partnership's general partner manages the Partnership's operations and activities as specified in the partnership agreement. The general partner of the Partnership is managed by its board of directors. CRLLC has the right to select the directors of the general partner. Actions by the general partner that are made in its individual capacity are made by CRLLC as the sole member of the general partner and not by its board of directors. The members of the board of directors of the general partner are not elected by the unitholders and are not subject to re-election on a regular basis in the future. The officers of the general partner manage the day-to-day affairs of the Partnership's business.

Table of Contents
CVR Partners, LP and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2013
(unaudited)

The partnership agreement provides that the Partnership will reimburse its general partner for all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership (including salary, bonus, incentive compensation and other amounts paid to any person to perform services for the Partnership or for its general partner in connection with operating the Partnership). The Partnership reimbursed its general partner for the three months ended September 30, 2013 and 2012 approximately $0.8 million and $1.1 million, respectively, pursuant to the partnership agreement for personnel costs related to the compensation of executives at the general partner, who manage the Partnership's business. For the nine months ended September 30, 2013 and 2012, approximately $2.8 million and $3.0 million were incurred related to amounts due for reimbursement, respectively. At September 30, 2013 and December 31, 2012, payables of $1.3 million and $1.9 million, respectively, were included in personnel accruals on the Condensed Consolidated Balance Sheets related to amounts outstanding in accordance with the limited partnership agreement.

Distributions to CRLLC

The Partnership distributed approximately $22.7 million and $30.5 million during the three months ended September 30, 2013 and 2012, respectively, as regular distributions on CRLLC's ownership of common units. For the nine months ended September 30, 2013 and 2012, the Partnership distributed approximately $63.5 million and $87.1 million, respectively, as regular distributions on CRLLC’s ownership of common units.

Railcar Lease Agreement

From March 2009 through June 2013, the Partnership leased 199 railcars from American Railcar Leasing, LLC (“ARL”), a company controlled by Mr. Carl C. Icahn, CVR Energy's majority stockholder. The agreement was scheduled to expire on March 30, 2014. On June 13, 2013, the Partnership purchased the railcars from ARL for approximately $5.0 million. For the three months ended September 30, 2013 and 2012, $0 and $0.3 million, respectively, of rent expense was recorded related to this agreement. This rent expense is included in cost of product sold (exclusive of depreciation and amortization) in the Condensed Consolidated Statement of Operations. For the nine months ended September 30, 2013 and 2012, rent expense of $0.4 million and $0.8 million, respectively, was recorded related to this agreement.

Registration Rights Agreement

For the nine months ended September 30, 2013, the Partnership recognized approximately $0.5 million, in expenses for the benefit of CRLLC in connection with CRLLC’s Secondary Offering in accordance with CVR Partners’ Registration Rights Agreement. For the three and nine months ended September 30, 2012, the Partnership recognized approximately $0.4 million and $1.1 million, respectively, in expenses for the benefit of CRLLC in accordance with CVR Partners' Registration Rights Agreement. These amounts included filing fees, printer fees and external accounting and external legal fees incurred in conjunction with the filing of the registration statements.

Insight Portfolio Group

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

CVR Partners, LP and Subsidiaries
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2013
(unaudited)

(16) Fair Value Measurements

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

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

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

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

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

The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, as of September 30, 2013 and December 31, 2012.

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Location and Description				
Cash equivalents (money market account)	$65,292	$—	$—	$65,292
Total Assets	65,292	—	—	65,292
Other current liabilities (interest rate swap)	—	894	—	894
Other long-term liabilities (interest rate swap)	—	1,190	—	1,190
Total Liabilities	—	2,084	—	2,084
Accumulated other comprehensive loss (interest rate swap)	$—	$2,084	$—	$2,084

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Location and Description				
Cash equivalents (money market account)	$118,229	$—	$—	$118,229
Total Assets	118,229	—	—	118,229
Other current liabilities (interest rate swap)	—	861	—	861
Other long-term liabilities (interest rate swap)	—	1,890	—	1,890
Total Liabilities	—	2,751	—	2,751
Accumulated other comprehensive loss (interest rate swap)	$—	$2,751	$—	$2,751

As of September 30, 2013 and December 31, 2012, the only financial assets and liabilities that are measured at fair value on a recurring basis are the Partnership's money market accounts and derivative instruments. The carrying value of the Partnership's debt approximates fair value. The Partnership has an interest rate swap that is measured at fair value on a recurring basis using Level 2 inputs (see Note 12 "Interest Rate Swap"). The fair values of these interest rate swap instruments are based on discounted cash flow models that incorporate the cash flows of the derivatives, as well as the current LIBOR rate and a forward LIBOR curve, along with other observable market inputs. The Partnership's cash and cash equivalents are all Level 1. The Partnership had no transfers of assets or liabilities between any of the above levels during the nine months ended September 30, 2013 and 2012.

(17) Subsequent Events

Distribution

On October 31, 2013, the board of directors of the Partnership's general partner declared a cash distribution for the third quarter of 2013 to the Partnership's unitholders of $0.36 per unit, or $26.3 million in aggregate. The cash distribution will be paid on November 18, 2013 to unitholders of record at the close of business on November 11, 2013.

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes and with the statistical information and financial data appearing in this Report, as well as the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2012 and filed with the Securities and Exchange Commission (“SEC”) on March 1, 2013, as amended. Results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of results to be attained for any other period.

Forward-Looking Statements

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

- statements, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future;

- statements relating to future financial performance, future capital sources and other matters; and

- any other statements preceded by, followed by or that include the words “anticipates,” “believes,” “expects,” “plans,” “intends, “estimates,” “projects,” “could,” “should,” “may,” or similar expressions.

Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Report, including this Management’s Discussion and Analysis of Financial Condition and Results of Operations, are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. These statements are based on assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate in the circumstances. Such statements are subject to a number of risks and uncertainties, many of which are beyond our control. You are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements as a result of various factors, including but not limited to those set forth under “Risk Factors” in the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2012. Such factors include, among others:

- our ability to make cash distributions on the common units;

- the volatile nature of our business and the variable nature of our distributions;

- the ability of our general partner to modify or revoke our distribution policy at any time;

- the cyclical nature of our business;

- the seasonal nature of our business;

- the dependence of our operations on a few third-party suppliers, including providers of transportation services and equipment;

- our reliance on pet coke that we purchase from CVR Refining;

- the supply and price levels of essential raw materials;

- the risk of a material decline in production at our nitrogen fertilizer plant;
- potential operating hazards from accidents, fire, severe weather, floods or other natural disasters;
- the risk associated with governmental policies affecting the agricultural industry;

- competition in the nitrogen fertilizer business;
- capital expenditures and potential liabilities arising from environmental laws and regulations;
- existing and proposed environmental laws and regulations, including those relating to climate change, alternative energy or fuel sources, and the end-use and application of fertilizers;
- new regulations concerning the transportation of hazardous chemicals, risks of terrorism and the security of chemical manufacturing facilities;
- our lack of asset diversification;
- our dependence on significant customers;
- the potential loss of our transportation cost advantage over our competitors;
- our potential inability to successfully implement our business strategies, including the completion of significant capital programs;
- our reliance on CVR Energy's senior management team and conflicts of interest they face operating each of CVR Partners, CVR Refining and CVR Energy;
- risks relating to our relationships with CVR Energy and CVR Refining;
- control of our general partner by CVR Energy;
- our ability to continue to license the technology used in our operations;
- restrictions in our debt agreements;
- changes in our treatment as a partnership for U.S. federal income or state tax purposes; and
- instability and volatility in the capital and credit markets.

All forward-looking statements contained in this Report speak only as of the date of this document. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that occur after the date of this Report, or to reflect the occurrence of unanticipated events.

Partnership Overview

Overview

We are a Delaware limited partnership formed by CVR Energy to own, operate and grow our nitrogen fertilizer business. Strategically located adjacent to CVR Refining's refinery in Coffeyville, Kansas, our nitrogen fertilizer manufacturing facility is the only operation in North America that utilizes a petroleum coke, or pet coke, gasification process to produce nitrogen fertilizer.

We produce and distribute nitrogen fertilizer products, which are used primarily by farmers to improve the yield and quality of their crops. Our principal products are UAN and ammonia. These products are manufactured at our facility in Coffeyville, Kansas. Our product sales are heavily weighted toward UAN and all of our products are sold on a wholesale basis.

Our facility includes a 1,225 ton-per-day ammonia unit, a 3,000 ton-per-day UAN unit, and a gasifier complex having a capacity of 84 million standard cubic feet per day of hydrogen. Our gasifier is a dual-train facility, with each gasifier able to function independently of the other, thereby providing redundancy and improving our reliability. With the recent completion of the UAN expansion in February 2013, we now upgrade substantially all of the ammonia we produce to higher margin UAN fertilizer, an aqueous solution of urea and ammonium nitrate which has historically commanded a premium price over ammonia. In 2012, we produced 390,017 tons of ammonia, of which approximately 68% was upgraded into 643,813 tons of UAN. For the three and nine months ended September 30, 2013, we produced 100,360 and 303,030 tons of ammonia, respectively, of which approximately 98% and 90%, respectively, was upgraded into 239,258 and 660,581 tons of UAN, respectively.

We will continue to expand our existing asset base and utilize the experience of our and CVR Energy's management teams to execute our growth strategy, which includes expanded production of UAN and acquiring and building additional infrastructure and production assets. A significant two-year plant expansion designed to increase our UAN production capacity by 400,000 tons, or approximately 50%, was completed in February 2013 and our expanded facility was operating at full rates at the end of the first quarter. CVR Energy, which indirectly owns our general partner and approximately 53% of our outstanding common units, also indirectly owns the general partner and 71% of the common units of CVR Refining, LP. CVR Refining currently operates a 115,000 bpd oil refinery in Coffeyville, Kansas, a 70,000 bpd oil refinery in Wynnewood, Oklahoma, and ancillary businesses.

The primary raw material feedstock utilized in our nitrogen fertilizer production process is pet coke, which is produced during the crude oil refining process. In contrast, substantially all of our nitrogen fertilizer competitors use natural gas as their primary raw material feedstock. Historically, pet coke has been less expensive than natural gas on a per ton of fertilizer produced basis and pet coke prices have been more stable when compared to natural gas prices. By using pet coke as the primary raw material feedstock instead of natural gas, we believe our nitrogen fertilizer business has historically been one of the lower cost producers and marketers of ammonia and UAN fertilizers in North America. We currently purchase most of our pet coke from CVR Refining pursuant to a long-term agreement having an initial term that ends in 2027, subject to renewal. During the past five years, over 70% of the pet coke consumed by our plant was produced and supplied by CVR Refining's Coffeyville, Kansas crude oil refinery.

Secondary Public Offering

On May 28, 2013, Coffeyville Resources, LLC ("CRLLC"), a wholly owned subsidiary of CVR Energy, sold 12,000,000 of our common units to the public at a price of $25.15 per unit in a registered public offering (the "Secondary Offering"). Additionally, the underwriters were granted an option to purchase 1,800,000 common units at the public offering price, which expired unexercised at the end of the option period. The net proceeds to CRLLC from the Secondary Offering were approximately $292.6 million, after deducting approximately $9.2 million in underwriting discounts and commissions. We did not receive any of the proceeds from the sale of common units by CRLLC. In connection with the Secondary Offering, the Partnership incurred approximately $0.5 million in offering costs.

Following the closing of the Secondary Offering and as of September 30, 2013, public security holders held approximately 47% of all outstanding common units and CRLLC held approximately 53% of all outstanding common units and the general partner interest.

Major Influences on Results of Operations

Our earnings and cash flows from operations are primarily affected by the relationship between nitrogen fertilizer product prices, on-stream factors and direct operating expenses. Unlike our competitors, we do not use natural gas as a feedstock and use a minimal amount of natural gas as an energy source in our operations. As a result, volatile swings in natural gas prices have a minimal impact on our results of operations. Instead, CVR Refining's adjacent refinery supplies us with most of the pet coke feedstock we need pursuant to a long-term pet coke supply agreement entered into in October 2007. The price at which our 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 and the operating levels of competing facilities. An expansion or upgrade of competitors' facilities, international 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.

In addition, the demand for fertilizers is affected by the aggregate crop planting decisions and fertilizer application rate decisions of individual farmers. Individual farmers make planting decisions based largely on the prospective profitability of a harvest, while the specific varieties and amounts of fertilizer they apply depend on factors like crop prices, their current liquidity, soil conditions, weather patterns and the types of crops planted.

Natural gas is the most significant raw material required in our competitors' production of nitrogen fertilizers. Over the last ten years, natural gas prices have significantly decreased. This decrease has substantially lowered our competitors' cost of producing nitrogen fertilizer.

In order to assess our operating performance, we calculate plant gate price to determine our operating margin. Plant gate price refers to the unit price of fertilizer, in dollars per ton, offered on a delivered basis, excluding shipment costs.

We and other competitors in the U.S. farm belt share a significant transportation cost advantage when compared to our out-of-region competitors in serving the U.S. farm belt agricultural market. In 2012, approximately 53% of the corn planted in the United States was grown within a $45 per UAN ton freight train rate of the nitrogen fertilizer plant. We are therefore able to cost-effectively sell substantially all of our products in the higher margin agricultural market, whereas a significant portion of our competitors' revenues is derived from the lower margin industrial market. Our products leave the plant either in trucks for direct shipment to customers or in railcars for destinations located principally on the Union Pacific Railroad and we do not currently incur significant intermediate transfer, storage, barge freight or pipeline freight charges. We estimate that our plant enjoys a transportation cost advantage of approximately $15 per UAN ton for transportation of UAN over competitors located in the U.S. Gulf Coast. Selling products to customers within economic rail transportation limits of the nitrogen fertilizer plant and keeping transportation costs low are keys to maintaining profitability.

The value of nitrogen fertilizer products is also an important consideration in understanding our results. For the three and nine months ended September 30, 2013, we upgraded approximately 98% and 90%, respectively, of our ammonia production into UAN, a product that presently generates greater profit than ammonia. During 2012, we upgraded approximately 68% of our ammonia production into UAN. UAN production is a major contributor to our profitability. Going forward, as a result of the UAN expansion project completion, we expect to upgrade substantially all of our ammonia production into UAN for as long as it makes economic sense to do so.

The high fixed cost of our direct operating expense structure also directly affects our profitability. Our facility's pet coke gasification process results in a significantly higher percentage of fixed costs than a natural gas-based fertilizer plant. Major fixed operating expenses include electrical energy, employee labor, maintenance, including contract labor, and outside services. These fixed costs averaged approximately 86% of direct operating expenses over the 24 months ended September 30, 2013.

Our largest raw material expense is pet coke, which we purchase from CRRM and third parties. For the three months ended September 30, 2013 and 2012, we spent approximately $3.5 million and $3.8 million, respectively, for pet coke, which equaled an average cost per ton of $30 in each period. For the nine months ended September 30, 2013 and 2012, we spent approximately $10.9 million and $12.9 million, respectively, for pet coke, which equaled an average cost per ton of $30 and $34, respectively.

Consistent, safe, and reliable operations at our nitrogen fertilizer plant are critical to our financial performance and results of operations. Unplanned downtime of the plant may result in lost margin opportunity, increased maintenance expense and a temporary increase in working capital investment and related inventory position. The financial impact of planned downtime, such as major turnaround maintenance, is mitigated through a diligent planning process that takes into account margin environment, the availability of resources to perform the needed maintenance, feedstock logistics and other factors. Historically, the nitrogen fertilizer plant has undergone a facility turnaround every two years. The turnaround typically lasts 13-15 days each turnaround year and costs approximately $3.0 million to $5.0

million per turnaround. The nitrogen fertilizer plant underwent a turnaround in the fourth quarter of 2012, at a cost of approximately $4.8 million. The Partnership is planning to defer the next full facility turnaround to 2015. It is anticipated that a less involved facility shutdown will be performed mid-year 2014 to upgrade the pressure swing absorption unit, which is projected to increase hydrogen recovery sufficient to produce approximately 7,000 to 8,000 tons of additional ammonia fertilizer annually.

Factors Affecting Comparability of Our Financial Results

Our historical results of operations for the periods presented may not be comparable with prior periods or to our results of operations in the future for the reasons discussed below.

Fertilizer Plant Property Taxes

CRNF received a ten year property tax abatement from Montgomery County, Kansas in connection with the construction of the nitrogen fertilizer plant that expired on December 31, 2007. In connection with the expiration of the abatement, the county reclassified and reassessed CRNF's nitrogen fertilizer plant for property tax purposes. The reclassification and reassessment resulted in an increase in CRNF's annual property tax expense by an average of approximately $10.7 million per year for the years ended December 31, 2008 and 2009, $11.7 million for the year ended December 31, 2010, $11.4 million for the year ended December 31, 2011, and $11.3 million for the year ended December 31, 2012. CRNF protested the classification and resulting valuation for each of those years to the Kansas Court of Tax Appeals ("COTA"), followed by an appeal to the Kansas Court of Appeals. However, CRNF fully accrued and paid the property taxes the county claimed were owed for the years ended December 31, 2008 through 2012. The Kansas Court of Appeals, in a memorandum opinion dated August 9, 2013, reversed the COTA decision, in part and remanded the case to COTA, instructing COTA to classify each asset on an asset by asset basis instead of making a broad determination that the entire plant was real property as COTA did originally. CRNF believes that when that asset by asset determination is done, the majority of the plant will be classified as personal property which would result in significantly lower property taxes for CRNF for 2008 and for those years after the conclusion of the property tax settlement noted below as compared to the taxes paid by CRNF prior to the settlement. The County filed a motion for rehearing with the Kansas Court of Appeals seeking reconsideration of the Court’s August 9, 2013 decision and that motion was denied. The County also filed a petition for review with the Kansas Supreme Court and that petition is pending.

On February 25, 2013, Montgomery County and CRNF agreed to a settlement for tax years 2009 through 2012, which will lower CRNF's property taxes by about $10.5 million per year for tax years 2013 through 2016 based on current mill levy rates. In addition, the settlement provides that Montgomery County will support CRNF's application before COTA for a ten year tax exemption for the UAN expansion. Finally, the settlement provides that CRNF will continue its appeal of the 2008 reclassification and reassessment as discussed above. CRNF has estimated and accrued property taxes for the three and nine months ended September 30, 2013 based on the lower rates resulting from the settlement.

Downtime Associated with 2nd Shift Catalyst

At the end of July 2013, the gasifier, ammonia and UAN facilities were taken down for 7 days for a planned replacement of the damaged 2nd shift catalyst. Replacement of the catalyst restored production to normal operating levels. Total costs related to replacement of the catalyst were approximately $1.6 million, comprised of $1.0 million of accelerated catalyst amortization and $0.6 million in repairs and maintenance costs. Approximately $1.1 million of these costs were recognized during the three months ended September 30, 2013.

Results of Operations

The following tables summarize the financial data and key operating statistics for CVR Partners and our operating subsidiary for the three and nine months ended September 30, 2013 and 2012. The following data should be read in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere in this Report. All information in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” except for the balance sheet data as of December 31, 2012, is unaudited.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions, except per unit amount)			
Consolidated Statements of Operations Data				
Net sales	$69.2	$75.0	$239.4	$234.7
Cost of product sold – Affiliates(1)	2.5	3.2	8.4	8.7
Cost of product sold – Third Parties(1)	10.5	8.1	30.8	25.9
	13.0	11.3	39.2	34.6
Direct operating expenses – Affiliates(1)	1.1	0.4	3.3	1.2
Direct operating expenses – Third Parties(1)	22.6	20.7	67.4	65.2
	23.7	21.1	70.7	66.4
Selling, general and administrative expenses - Affiliates(1)	3.6	3.9	12.0	12.9
Selling, general and administrative expenses - Third Parties(1)	1.0	1.2	3.8	5.2
	4.6	5.1	15.8	18.1
Depreciation and amortization(1)	6.6	5.2	18.5	15.8
Operating income	21.3	32.3	95.2	99.8
Interest expense and other financing costs	(1.6)	(0.9)	(4.6)	(3.1)
Interest income	—	0.1	—	0.2
Other income (expense), net	—	0.1	0.1	0.1
Total other income (expense)	(1.6)	(0.7)	(4.5)	(2.8)
Income before income tax expense	19.7	31.6	90.7	97.0
Income tax expense	—	—	—	0.1
Net income	$19.7	$31.6	$90.7	$96.9
EBITDA(2)	$27.9	$37.6	$113.8	$115.7
Adjusted EBITDA(2)	$28.2	$39.0	$116.1	$121.1
Available cash for distribution(3)	$26.5	$36.2	$113.7	$118.3
Reconciliation of net sales (dollars in millions):				
Sales net plant gate	$60.4	$68.2	$212.9	$211.1
Freight in revenue	7.8	6.5	21.6	17.6
Hydrogen revenue	0.8	0.3	4.7	6.0
Other	0.2	—	0.2	—
Total net sales	$69.2	$75.0	$239.4	$234.7

	As of September 30, 2013	As of December 31, 2012 (audited)
	(in millions)	
Balance Sheet Data		
Cash and cash equivalents	$87.2	$127.8
Working capital	104.3	116.6
Total assets	594.0	623.0
Total debt	125.0	125.0

Partners' Capital	438.5	446.2

33

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Cash Flow and Other Data				
Net cash flow provided by (used in):				
Operating activities	$21.9	$44.9	$96.5	$124.8
Investing activities	(4.0)	(17.2)	(35.8)	(56.4)
Financing activities	(42.6)	(43.8)	(101.4)	(125.1)
Net cash flow	$(24.7)	$(16.1)	$(40.7)	$(56.7)
Capital expenditures for property, plant and equipment	$4.0	$18.2	$35.8	$57.4

---

(1) Amounts are shown exclusive of depreciation and amortization.

Depreciation and amortization is comprised of the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Depreciation and amortization excluded from direct operating expenses	$6.5	$5.2	$18.3	$15.7
Depreciation and amortization excluded from cost of product sold	0.1	—	0.2	0.1
Total depreciation and amortization	$6.6	$5.2	$18.5	$15.8

(2) EBITDA is defined as net income before net interest (income) expense, income tax expense, and depreciation and amortization expense, which are items management believes affect the comparability of operating results.

Adjusted EBITDA is defined as EBITDA further adjusted for the impact of non-cash share-based compensation, and, where applicable, major scheduled turnaround expense and loss on disposition of assets. We present Adjusted EBITDA because it is a key measure used in material covenants in our credit facility and because it is the starting point for calculating our available cash for distribution. EBITDA and Adjusted EBITDA are not recognized terms under GAAP and should not be substituted for net income or cash flows from operations. Management believes that EBITDA and Adjusted EBITDA enable investors and analysts to better understand our ability to make distributions to our common unitholders and our compliance with the covenants contained in our credit facility. EBITDA and Adjusted EBITDA presented by other companies may not be comparable to our presentation, since each company may define these terms differently.

A reconciliation of our net income to EBITDA and Adjusted EBITDA is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Net income	$19.7	$31.6	$90.7	$96.9
Add:				
Interest expense, net	1.6	0.8	4.6	2.9
Income tax expense	—	—	—	0.1
Depreciation and amortization	6.6	5.2	18.5	15.8
EBITDA	27.9	37.6	113.8	115.7
Add:				
Major scheduled turnaround expenses	—	0.2	—	0.2
Share-based compensation, non-cash	0.3	1.2	2.3	5.2
Adjusted EBITDA	$28.2	$39.0	$116.1	$121.1

(3) For the three and nine months ended September 30, 2013, available cash for distribution equaled our Adjusted EBITDA, reduced for cash needed for net interest expense (excluding capitalized interest) and debt service and other contractual obligations, maintenance capital expenditures and, to the extent applicable, major scheduled turnaround expense incurred and reserves for future operating or capital needs that the board of directors of the general partner deems necessary or appropriate, if any. For the three and nine months ended September 30, 2012, available cash for distribution equaled our cash flow from operations for the quarter, less cash needed for maintenance capital expenditures, debt service and other contractual obligations, and reserves for future operating or capital needs that our board of directors of our general partner deemed necessary or appropriate. Cash on hand associated with prepaid sales at September 30, 2012 was also retained for future distribution to common unitholders based upon the recognition into income of the prepaid sales. Available cash for distribution may be increased by previously established cash reserves, if any, at the discretion of the board of directors of our general partner.

Available cash for distribution is not a recognized term under GAAP. Available cash should not be considered in isolation or as an alternative to net income or operating income, as a measure of operating performance. In addition, available cash for distribution is not presented as, and should not be considered an alternative to cash flows from operations or as a measure of liquidity. Available cash as reported by the Partnership may not be comparable to similarly titled measures of other entities; thereby limiting its usefulness as a comparative measure.

	Three Months Ended September 30, 2013 (in millions, except per unit data)
Reconciliation of Adjusted EBITDA to Available cash for distribution	
Adjusted EBITDA	$28.2
Adjustments:	
Less:	
Net cash interest expense (excluding capitalized interest) and debt service	(1.4)
Maintenance capital expenditures	(0.8)
Plus:	
Other non-cash adjustments	0.5
Available cash for distribution	$26.5

Available cash for distribution, per unit	$0.36
Common units outstanding (in thousands)	73,078

35

The tables show selected information about key market indicators and certain operating statistics for our business:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Key Operating Statistics				
Production (thousand tons):				
Ammonia (gross produced)(1)	100.4	104.2	303.0	302.3
Ammonia (net available for sale)(1)(2)	3.4	29.4	36.3	89.3
UAN	239.3	181.9	660.6	516.5
Pet coke consumed (thousand tons)	116	126.9	360.2	377.7
Pet coke (cost per ton)(3)	$30	$30	$30	$34
Sales (thousand tons):				
Ammonia	3.3	30.2	37.9	89.5
UAN	226.7	175.1	638.1	510.5
Product pricing (plant gate) (dollars per ton)(4):				
Ammonia	$505	$578	$654	$586
UAN	259	290	295	311
On-stream factors(5):				
Gasification	91.2 %	99.1 %	94.1 %	97.2 %
Ammonia	90.1 %	98.4 %	92.6 %	96.0 %
UAN	89.5 %	96.9 %	89.6 %	92.4 %

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Market Indicators				
Natural gas NYMEX (dollars per MMBtu)	$3.56	$2.89	$3.69	$2.58
Ammonia — Southern Plains (dollars per ton)	$498	$677	$611	$616
UAN — corn belt (dollars per ton)	$302	$356	$352	$372

(1) Gross tons produced for ammonia represent total ammonia produced, including ammonia that was upgraded into UAN. As a result of the recently completed UAN expansion project, we expect to upgrade substantially all of the ammonia we produce into UAN. Net tons available for sale represent ammonia available for sale that was not upgraded into UAN.

(2) In addition to the produced ammonia, during the three and nine months ended September 30, 2013, the Partnership acquired approximately 1,000 and 5,000 tons of ammonia, respectively, which was upgraded to UAN.

(3) Our pet coke cost per ton purchased from CVR Refining averaged $27 and $26 for the three months ended September 30, 2013 and 2012, respectively. Third-party pet coke prices averaged $40 for each of the three months ended September 30, 2013 and 2012. For the nine months ended September 30, 2013 and 2012 our pet coke cost per ton purchased from CVR Refining averaged $27 and $31 respectively. For the nine months ended September 30, 2013 and 2012, third-party pet coke prices averaged $40 and $42, respectively.

(4) Plant gate price per ton represents net sales less freight revenue and hydrogen revenue divided by product sales volume in tons in the reporting period. Plant gate price per ton is shown in order to provide a pricing measure that

is comparable across the fertilizer industry.

(5) On-stream factor is the total number of hours operated divided by the total number of hours in the reporting period and is included as a measure of operating efficiency. Excluding the impact of the planned downtime associated with the replacement of damaged catalyst, the on-stream factors for the three months ended September 30, 2013 would have been 98.7% for gasifier, 98.2% for ammonia and 97.8% for UAN.

Excluding the impact of the UAN expansion coming on-line, the planned downtime associated with replacement of damaged catalyst, the unplanned Linde air separation unit outages and the unplanned downtime associated with weather issues, the on-stream factors for the nine months ended September 30, 2013 would have been 99.3% for gasifier, 98.7% for ammonia and 97.7% for UAN.

Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

Net Sales. Net sales were $69.2 million for the three months ended September 30, 2013 compared to $75.0 million for the three months ended September 30, 2012. The decrease of $5.8 million was the result of lower ammonia sales volumes ($14.4 million), lower UAN sales prices ($5.2 million) and lower ammonia sales prices ($2.0 million), partially offset by higher UAN sales volumes ($15.1 million) combined with higher hydrogen sales volumes ($0.5 million). For the three months ended September 30, 2013, ammonia and UAN made up $1.7 million and $66.5 million of our net sales, respectively. This compared to ammonia and UAN net sales of $18.1 million and $56.6 million, respectively, for the three months ended September 30, 2012. The following table demonstrates the impact of sales volumes and pricing for ammonia, UAN and hydrogen for the three months ended September 30, 2013 and September 30, 2012:

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012			Total Variance			
	Volume(1)	$ per ton(2)	Sales $(3)	Volume(1)	$ per ton(2)	Sales $(3)	Volume(1)	Sales $(3)	Price Variance	Volume Variance
									(in millions)	
Ammonia	3,251	$533	$1.7	30,197	$601	$18.1	(26,946)	$(16.4)	$(2.0)	$(14.4)
UAN	226,714	$293	$66.5	175,059	$323	$56.6	51,655	$9.9	$(5.2)	$15.1
Hydrogen	99,260	$8	$0.8	30,809	$9	$0.3	68,451	$0.5	$—	$0.5

(1) Ammonia and UAN sales volumes are in tons. Hydrogen sales volumes are in MSCF.

(2) Includes freight charges

(3) Sales dollars in millions

The increase in UAN sales volume for the three months ended September 30, 2013 compared to the three months ended September 30, 2012 was primarily attributable to the UAN expansion being in operation during the quarter. On-stream factors (total number of hours operated divided by total hours in the reporting period) for the gasification, ammonia and UAN units were 91.2%, 90.1% and 89.5%, respectively, for the three months ended September 30, 2013. Excluding the impact of the planned downtime associated with the replacement of the damaged catalyst in July, the on-stream factors for the three months ended September 30, 2013 would have been 98.7% for gasifier, 98.2% for ammonia and 97.8% for UAN.

Plant gate prices are prices at the designated delivery point less any freight cost we absorb to deliver the product. We believe plant gate price is meaningful because we sell products both at our plant gate (sold plant) and delivered to the customer's designated delivery site (sold delivered) and the percentage of sold plant versus sold delivered can change month-to-month or quarter-to-quarter. The plant gate price provides a measure that is consistently comparable period to period. Average plant gate prices for the three months ended September 30, 2013 compared to the three months ended September 30, 2012 decreased 12.6% for ammonia and decreased 10.7% for UAN.

Cost of Product Sold (Exclusive of Depreciation and Amortization). Cost of product sold (exclusive of depreciation and amortization) is primarily comprised of pet coke expense and freight and distribution expenses. Cost of product sold (exclusive of depreciation and amortization) for the three months ended September 30, 2013 was $13.0 million, compared to $11.3 million for the three months ended September 30, 2012. The $1.7 million increase resulted from $2.4 million in higher costs from transactions with third parties, partially offset by lower costs from transactions with affiliates of $0.7 million. The higher third-party costs incurred during the three months ended September 30, 2013 were primarily the result of ammonia purchases and increased freight costs.

Direct Operating Expenses (Exclusive of Depreciation and Amortization). Direct operating expenses (exclusive of depreciation and amortization) include costs associated with the actual operations of our plant, such as repairs and maintenance, energy and utility costs, property taxes, catalyst and chemical costs, outside services, labor and environmental compliance costs. Direct operating expenses (exclusive of depreciation and amortization) for the three months ended September 30, 2013 were $23.7 million as compared to $21.1 million for the three months ended September 30, 2012. The $2.6 million increase resulted primarily from higher utilities ($1.6 million), repairs and maintenance costs ($1.1 million), catalyst amortization ($1.0 million), chemicals ($0.5 million), outside services ($0.5 million), partially offset by lower property taxes ($3.3 million). Additionally, direct operating expenses in the prior year period were reduced from insurance proceeds received for the reactor rupture ($1.0 million). The increased utility costs were largely due to the UAN expansion, which came on-line in February 2013. The increases to the repairs and maintenance and the catalyst amortization are largely the result of the planned replacement of damaged catalyst.

Selling, General and Administrative Expenses (Exclusive of Depreciation and Amortization). Selling, general and administrative expenses include the direct selling, general and administrative expenses of our business as well as certain expenses incurred by our affiliates, CVR Energy and Coffeyville Resources, on our behalf and billed or allocated to us in accordance with the services agreement. We also reimburse our general partner in accordance with the partnership agreement for expenses it incurs on our behalf. Reimbursed expenses to our general partner are included as selling, general & administrative expenses from affiliates. Certain of our expenses are subject to the services agreement with CVR Energy and our general partner. Selling, general and administrative expenses (exclusive of depreciation and amortization) were $4.6 million for the three months ended September 30, 2013, as compared to $5.1 million for the three months ended September 30, 2012. The decrease of $0.5 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 resulted from a decrease in costs of transactions with affiliates ($0.3 million) and a decrease in costs of transactions with third parties ($0.2 million). The overall variance was primarily the result of a decrease in share-based compensation ($0.8 million), partially offset by increases in outside services and expenses related to the services agreement.

Operating Income. Operating income was $21.3 million for the three months ended September 30, 2013, as compared to operating income of $32.3 million for the three months ended September 30, 2012. The decrease of $11.0 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 was the result of the decrease in sales ($5.8 million) and increases in direct operating expenses ($2.6 million), cost of product sold ($1.7 million) and depreciation and amortization ($1.4 million), partially offset by a decrease in selling, general, and administrative expense ($0.5 million).

Interest Expense. Interest expense for the three months ended September 30, 2013 was approximately $1.6 million as compared to $0.9 million for the three months ended September 30, 2012. Interest expense for the three months ended September 30, 2013 was attributable to bank interest expense of $1.2 million on the $125.0 million term loan facility, $0.3 million of interest expense related to the interest rate swap and $0.2 million of deferred financing amortization, partially offset by capitalized interest of $0.1 million. The increase in expense as compared to the three months ended September 30, 2012 is primarily due to a decrease in capitalized interest associated with the UAN expansion being completed in the first quarter.

Net Income. For the three months ended September 30, 2013, net income was $19.7 million as compared to $31.6 million of net income for the three months ended September 30, 2012, a decrease of $11.9 million. The decrease in net income was primarily due to the factors noted above.

Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Net Sales. Net sales were $239.4 million for the nine months ended September 30, 2013 compared to $234.7 million for the nine months ended September 30, 2012. The increase of $4.7 million was the result of higher sales volumes for UAN ($41.8 million) and higher prices for ammonia ($6.0 million), offset by lower sales volumes for ammonia ($34.7 million), lower prices for UAN ($7.3 million) and reduced hydrogen sales to CVR Energy’s refinery ($1.2 million). For the nine months ended September 30, 2013, ammonia and UAN made up $25.5 million and $209.0 million of our net sales, respectively. This compared to ammonia and UAN net sales of $54.2 million and $174.5 million, respectively, for the nine months ended September 30, 2012. The following table demonstrates the impact of sales volumes and pricing for ammonia, UAN and hydrogen for the nine months ended September 30, 2013 and September 30, 2012:

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012			Total Variance			
	Volume(1)	$ per ton(2)	Sales $(3)	Volume(1)	$ per ton(2)	Sales $(3)	Volume(1)	Sales $(3)	Price Variance	Volume Variance
									(in millions)	
Ammonia	37,891	$672	$25.5	89,477	$605	$54.2	(51,586)	$(28.7)	$6.0	$(34.7)
UAN	638,142	$328	$209.0	510,520	$342	$174.5	127,622	$34.5	$(7.3)	$41.8
Hydrogen	477,075	$10	$4.7	593,466	$10	$6.0	(116,391)	$(1.3)	$(0.1)	$(1.2)

(1) Ammonia and UAN sales volumes are in tons. Hydrogen sales volumes are in MSCF.

(2) Includes freight charges

(3) Sales dollars in millions

The increase in UAN sales volume for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 was primarily attributable to the UAN expansion coming on-line in February of 2013. On-stream factors (total number of hours operated divided by total hours in the reporting period) for the gasification, ammonia and UAN units were 94.1%, 92.6% and 89.6%, respectively, for the nine months ended September 30, 2013. Excluding the impacts of the UAN expansion coming on-line, the planned downtime associated with the replacement of damaged catalyst, the unplanned Linde air separation unit outages and the unscheduled downtime associated with weather issues, the on-stream factors for the nine months ended September 30, 2013 would have been 99.3% for gasifier, 98.7% for ammonia and 97.7% for UAN.

Plant gate prices are prices at the designated delivery point less any freight cost we absorb to deliver the product. We believe plant gate price is meaningful because we sell products both at our plant gate (sold plant) and delivered to the customer’s designated delivery site (sold delivered) and the percentage of sold plant versus sold delivered can change month to month or quarter-to-quarter. The plant gate price provides a measure that is consistently comparable period to period. Average plant gate prices for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 increased 11.6% for ammonia and decreased 5.1% for UAN.

Cost of Product Sold. Cost of product sold is primarily comprised of pet coke expense, freight expense and distribution expense. Cost of product sold for the nine months ended September 30, 2013 was $39.2 million compared to $34.6 million for the nine months ended September 30, 2012. The increase of $4.6 million is primarily the result of higher third-party costs ($4.9 million) associated with increased freight costs due to the increase in UAN sales volumes and purchased ammonia costs.

Direct Operating Expenses (Exclusive of Depreciation and Amortization). Direct operating expenses include costs associated with the actual operations of our plant, such as repairs and maintenance, energy and utility costs, catalyst and chemical costs, outside services, labor and environmental compliance costs. Direct operating expenses (exclusive of depreciation and amortization) for the nine months ended September 30, 2013 were $70.7 million as compared to $66.4 million for the nine months ended September 30, 2012. The $4.3 million increase was largely the result of increased utilities ($3.6 million), repairs and maintenance costs ($2.3 million), catalyst amortization ($1.7 million), insurance ($1.2 million), chemicals ($1.0 million), labor ($0.7 million) and outside services ($0.6 million), partially offset by lower property taxes ($8.7 million). Additionally, direct operating expenses in the prior year period were reduced by insurance proceeds received for the reactor rupture ($1.0 million). The increased utility costs were largely due to the UAN expansion, which came on-line in February 2013. The increases to the repairs and maintenance and the catalyst amortization are partially the result of the planned replacement of damaged catalyst.

Selling, General and Administrative Expenses (Exclusive of Depreciation and Amortization). Selling, general and administrative expenses include the direct selling, general and administrative expenses of our business as well as certain expenses incurred by our affiliates, CVR Energy and Coffeyville Resources, on our behalf and billed or allocated to us in accordance with the services agreement. We also reimburse our general partner in accordance with the partnership agreement for expenses it incurs on our behalf. Reimbursed expenses to our general partner are included as selling, general & administrative expenses from affiliates. Selling, general and administrative expenses (exclusive of depreciation and amortization) were $15.8 million for the nine months ended September 30, 2013, as compared to $18.1 million for the nine months ended September 30, 2012. The decrease of $2.3 million for the nine months ended September 30, 2013 over the comparable period in 2012 resulted from a decrease in costs from transactions with third parties ($1.4 million) and a decrease in costs from transactions with affiliates ($0.9 million). The overall variance was primarily the result of decreases in share-based compensation ($2.5 million) and outside services expenses, partially offset by increased expenses related to the services agreement.

Operating Income. Operating income was $95.2 million for the nine months ended September 30, 2013 as compared to operating income of $99.8 million for the nine months ended September 30, 2012. The decrease of $4.6 million was primarily the result of the increases in cost of product sold ($4.6 million), direct operating expenses ($4.3 million) and depreciation and amortization (2.7 million), partially offset by the increase in sales ($4.7 million) and decrease in selling, general, and administrative expenses ($2.3 million).

Interest Expense. Interest expense for the nine months ended September 30, 2013 was approximately $4.6 million as compared to $3.1 million for the nine months ended September 30, 2012. Interest expense for the nine months ended September 30, 2013 was attributable to bank interest expense of $3.6 million on the $125.0 million term loan facility, $0.8 million of interest expense related to the interest rate swap and $0.7 million of deferred financing amortization, partially offset by capitalized interest of $0.5 million. The increase in interest from the prior year period is primarily due to a decrease in capitalized interest associated with the UAN expansion being completed in the first quarter.

Net Income. For the nine months ended September 30, 2013, net income was $90.7 million as compared to $96.9 million of net income for the nine months ended September 30, 2012, a decrease of $6.2 million. The decrease in net income was primarily due to the factors discussed above.

Liquidity and Capital Resources

Our principal source of liquidity has historically been cash from operations, which includes cash advances from customers resulting from forward sales. Our liquidity was further enhanced during the second quarter of 2011 by the receipt of approximately $158.0 million in net proceeds from our Initial Public Offering. In addition, in conjunction with the completion of the Initial Public Offering, we entered into a new $125.0 million term loan and $25.0 million revolving credit facility.

Our principal uses of cash are funding our operations, distributions to common unitholders, capital expenditures and funding our debt service obligations. We believe that our cash from operations, remaining proceeds from the Initial Public Offering and available borrowings under our revolving credit facility will be adequate to satisfy anticipated commitments and planned capital expenditures for the next twelve 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 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, modify the terms of our existing 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.

Cash Balance and Other Liquidity

As of September 30, 2013, we had cash and cash equivalents of $87.2 million, including $0.8 million of customer advances. Working capital at September 30, 2013 was $104.3 million, consisting of $133.5 million in current assets and $29.2 million in current liabilities. Working capital at December 31, 2012 was $116.6 million, consisting of $166.1 million in current assets and $49.5 million in current liabilities. As of October 29, 2013, we had cash and cash equivalents of $94.8 million.

Credit Facility

On April 13, 2011 in conjunction with the completion of our Initial Public Offering, we entered into a credit facility with a group of lenders including Goldman Sachs Lending Partners LLC, as administrative and collateral agent. The credit facility includes a term loan facility of $125.0 million and a revolving credit facility of $25.0 million with an uncommitted incremental facility of up to $50.0 million. There is no scheduled amortization and the credit facility matures in April 2016. The credit facility is used to finance on-going working capital, capital projects, letter of credit issuances and general needs of the Partnership.

Borrowings under the credit facility bear interest based on a pricing grid determined by a trailing four quarter leverage ratio. Pricing for borrowings under the credit facility is currently the Eurodollar rate plus a margin of 3.50%, or, for base rate loans, the prime rate plus 2.50%. Under its terms, the lenders under the credit facility were granted a first priority security interest (subject to certain customary exceptions) in substantially all of the assets of CVR Partners and CRNF and all of the capital stock of CRNF and each domestic subsidiary owned by CVR Partners or CRNF. CRNF is the borrower under the credit facility. All obligations under the credit facility are unconditionally guaranteed by CVR Partners and substantially all of our future, direct and indirect, domestic subsidiaries.

As of September 30, 2013, no amounts were drawn under the $25.0 million revolving credit facility.

Mandatory Prepayments

We are required to prepay outstanding amounts under our term facility in an amount equal to the net proceeds from the sale of assets or from insurance or condemnation awards related to collateral, in each case subject to certain reinvestment rights. In addition, we are required to prepay outstanding amounts under our term facility with the net proceeds from certain issuances of debt (other than debt permitted to be incurred under our credit facility).

Voluntary Prepayments/Commitment Reductions

At any time, we may voluntarily reduce the unutilized portion of the revolving commitment amount, or prepay, in whole or in part, outstanding amounts under our credit facility without premium or penalty other than customary "breakage" costs with respect to Eurodollar rate loans.

Amortization and Final Maturity

There is no scheduled amortization under our credit facility. All outstanding amounts under our credit facility are due and payable in full in April 2016.

Restrictive Covenants and Other Matters

Our credit facility requires us to maintain (i) a minimum interest coverage ratio (ratio of Consolidated Adjusted EBITDA to interest) as of the end of any fiscal quarter of 3.0 to 1.0 and (ii) a maximum leverage ratio (ratio of debt to Consolidated Adjusted EBITDA) as of the end of any fiscal quarter of 3.0 to 1.0, in both cases calculated on a trailing four quarter basis. In addition, the credit facility includes negative covenants that, subject to significant exceptions, limit our ability to, among other things:

- incur, assume or permit to exist additional indebtedness, guarantees and other contingent obligations;

- incur liens;

- make negative pledges;

- pay dividends or make other distributions;

- make payments to our subsidiary;

- make certain loans and investments;

- consolidate, merge or sell all or substantially all of our assets;

- enter into sale-leaseback transactions; and

- enter into transactions with affiliates.

The credit facility provides that we can make distributions to holders of our common units, but only if we are in compliance with our leverage ratio and interest coverage ratio covenants on a pro forma basis after giving effect to any distribution and there is no default or event of default under the facility.

The credit facility contains certain customary representations and warranties, affirmative covenants and events of default, including, among other things, payment defaults, breach of representations and warranties, covenant defaults, cross-defaults to certain indebtedness, certain events of bankruptcy, certain events under ERISA, material judgments, actual or asserted failure of any guaranty or security document supporting the credit facility to be in force and effect, and change of control. An event of default will also be triggered if CVR Energy, CVR Refining or any of their subsidiaries (other than us and CRNF) terminates or violates any of its covenants in any of the intercompany agreements between us and CVR Energy, CVR Refining and their subsidiaries (other than us and CRNF) and such action has resulted or could reasonably be expected to result in a material adverse effect on us. If an event of default occurs, the administrative agent under the credit facility would be entitled to take various actions, including the acceleration of amounts due under the credit facility and all actions permitted to be taken by a secured creditor.

As of September 30, 2013, we were in compliance with the covenants under the credit facility.

Interest Rate Swap

Our profitability and cash flows are affected by changes in interest rates, specifically LIBOR and prime rates. The primary purpose of our interest rate risk management activities is to hedge our exposure to changes in interest rates.

On June 30 and July 1, 2011, CRNF entered into two Interest Rate Swap agreements with J. Aron & Company which commenced on August 12, 2011. We have determined that the Interest Rate Swaps qualify for hedge accounting treatment. The impact recorded for the three months ended September 30, 2013 and 2012 was $0.3 million and $0.2 million, respectively, in interest expense. For the three months ended September 30, 2013 and 2012, the Partnership recorded losses of $0.3 million and $0.4 million, respectively, in the fair market value on the interest rate swaps. The impact recorded for the nine months ended September 30, 2013 and 2012 was $0.8 million and $0.7 million, respectively, in interest expense. For the nine months ended September 30, 2013 and 2012, the Partnership recorded losses of $0.1 million and $1.3 million, respectively, in other comprehensive income related to the change in fair market value on the interest rate swaps. The combined fair market value of the interest rate swaps recorded in current and non-current liabilities at September 30, 2013 is $2.1 million. This amount is unrealized and included in accumulated other comprehensive income.

Capital Spending

Our total capital expenditures for the nine months ended September 30, 2013 were $35.8 million. We divide our capital spending needs into two categories: maintenance and growth. Maintenance capital spending includes only non-discretionary maintenance projects and projects required to comply with environmental, health and safety regulations. We also treat maintenance capital spending as a reduction of cash available for distribution to unitholders. Growth capital projects generally involve an expansion of existing capacity, improvement in product yields, and/or a reduction in direct operating expenses. Of the $35.8 million spent for the nine months ended September 30, 2013, $2.0 million was related to maintenance capital projects and the remainder was related to growth capital projects. Major scheduled turnaround expenses are expensed when incurred.

Including amounts already spent during the nine months ended September 30, 2013, we expect to spend in total $40.0 million to $48.0 million on capital expenditures for the year ending December 31, 2013, excluding capitalized interest. Of this amount, approximately $5.0 million will be spent on maintenance projects and $35.0 million to $43.0 million will be spent on growth projects, which includes approximately $25.0 million spent related to the UAN expansion project. Proceeds were retained from the Initial Public Offering to fund future growth capital expenditures, including the UAN expansion project.

In February 2013 we completed a significant two-year plant expansion designed to increase our UAN production capacity by 400,000 tons, or approximately 50% per year. The expanded facility was running at full operating rates prior to the end of the first quarter. The UAN expansion provides us with the ability to upgrade substantially all of our ammonia production to UAN. Total capital expenditures associated with the UAN expansion were approximately $130.0 million, excluding capitalized interest.

In April 2013, the Partnership approved a UAN terminal project that will include the construction of a two million gallon UAN storage tank and related truck and rail car load-out facilities that will be located in Dartmouth, Kansas. The purpose of the UAN terminal is to distribute approximately 20,000 tons of UAN fertilizer annually. It is anticipated that this terminal will be in operation by the end of the year at a cost of approximately $2.0 million.

Planned capital expenditures for 2013 are subject to change due to unanticipated increases in the cost, scope and completion time for our capital projects. For example, we may experience increases in labor or equipment costs necessary to comply with government regulations or to complete projects that sustain or improve the profitability of our nitrogen fertilizer plant. Capital spending for our business has been and will be determined by our general partner.

Distributions to Unitholders

Our general partner's current policy is to distribute all of the available cash we generate each quarter. Available cash for each quarter is determined by the board of directors of our general partner following the end of such quarter. Beginning with the first quarter 2013, the board of directors of our general partner adopted an amended policy to calculate available cash starting with Adjusted EBITDA reduced for cash needed for net interest expense (excluding capitalized interest) and debt service and other contractual obligations, maintenance capital expenditures and, to the extent applicable, major scheduled turnaround expense incurred and reserves for future operating or capital needs that the board of directors of the general partner deems necessary or appropriate, if any. Available cash for distributions may be increased by previously established cash reserves, if any, at the discretion of the board of directors of our general partner. Actual distributions are set by the board of directors of our general partner. The board of directors of our general partner may modify our cash distribution policy at any time, and our partnership agreement does not require us to make distributions at all.

The following is a summary of cash distributions paid to the Partnership's unitholders during 2013 for the respective quarters to which the distributions relate:

	December 31, 2012	March 31, 2013	June 30, 2013	Total Cash Distributions Paid in 2013
	($ in millions, expect per common unit amounts)			
Amount paid to CRLLC	$9.8	$31.1	$22.7	$63.5
Amounts paid to public unitholders	4.2	13.5	19.9	37.7
Total amount paid	$14.0	$44.6	$42.6	$101.2
Per common unit	$0.192	$0.610	$0.583	$1.385
Common units outstanding (in thousands)	73,065	73,065	73,075	

On October 31, 2013, the board of directors of the Partnership's general partner declared a cash distribution for the third quarter of 2013 to the Partnership's unitholders of $0.36 per unit. The cash distribution will be paid November 18, 2013 to unitholders of record at the close of business on November 11, 2013.

Cash Flows

The following table sets forth our cash flows for the periods indicated below (in millions):

	Nine Months Ended September 30,	
	2013	2012
	(unaudited)	
Net cash provided by (used in):		
Operating activities	$96.5	$124.8
Investing activities	(35.8)	(56.4)
Financing activities	(101.4)	(125.1)
Net increase (decrease) in cash and cash equivalents	$(40.7)	$(56.7)

43

Cash Flows Provided by Operating Activities

For purposes of this cash flow discussion, we define trade working capital as accounts receivable, inventory and accounts payable. Other working capital is defined as all other current assets and liabilities except trade working capital.

Net cash flows provided by operating activities for the nine months ended September 30, 2013 were $96.5 million. The positive cash flow from operating activities generated over this period was attributable to net income of $90.7 million, which was primarily driven by strong UAN product volumes and favorable fertilizer prices, partially offset by a decline in production volumes that resulted from planned downtime associated with the replacement of the damaged catalyst, the unplanned Linde air separation unit outages and the unscheduled downtime associated with weather issues. For the nine months ended September 30, 2013, trade working capital decreased our operating cash flow by $6.0 million due to an increase in inventory of $3.9 million, an increase in accounts receivable of $1.0 million and a decrease in accounts payable of $1.1 million. Fluctuations in other working capital resulted in a decrease to operating cash flows of $9.4 million, primarily due to an increase to prepaid expenses of $3.2 million and a decrease to accrued expenses and other current liabilities of $6.0 million.

Net cash flows provided by operating activities for the nine months ended September 30, 2012 was $124.8 million. The positive cash flow from operating activities generated over this period was primarily attributable to net income of $96.9 million which was driven by a strong fertilizer price environment and favorable impacts to working capital. With respect to other working capital for the nine months ended September 30, 2012, the primary sources of cash were an increase to accrued expenses and other current liabilities of $3.8 million and an increase in deferred revenue of $1.4 million. Deferred revenue represents customer prepaid deposits for the future delivery of our nitrogen fertilizer products. For the nine months ended September 30, 2012, trade working capital increased our operating cash flow by $2.6 million and was primarily attributable to an increase in accounts payable of $7.7 million, a decrease in accounts receivable of $1.4 million, partially offset by an increase in inventory of $6.5 million.

Cash Flows Used in Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2013 was $35.8 million compared to $56.4 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2013 and September 30, 2012, net cash used in investing activities is primarily the result of capital expenditures. The decrease in capital expenditures during the nine months ended September 30, 2013 is primarily the result of the UAN expansion project completion during the first quarter.

Cash Flows Used in Financing Activities

Net cash flows used in financing activities for the nine months ended September 30, 2013 were $101.4 million, compared to net cash flows used in financing activities for the nine months ended September 30, 2012 of $125.1 million. The net cash used in financing activities for nine months ended September 30, 2013 and 2012 was primarily attributable to quarterly cash distributions.

Capital and Commercial Commitments

We are required to make payments relating to various types of obligations. The following table summarizes our minimum payments as of September 30, 2013 relating to long-term debt, operating leases, unconditional purchase obligations and other specified capital and commercial commitments for the period following September 30, 2013 and thereafter.

	Payments Due by Period						
	Total	2013	2014	2015	2016	2017	Thereafter
	(unaudited)						
	(in millions)						
Contractual Obligations							
Long-term debt(1)	$125.0	$—	$—	$—	$125.0	$—	$—
Operating leases(2)	26.5	1.4	5.4	5.2	4.8	2.8	6.9
Unconditional purchase obligations(3)	34.1	2.6	4.6	4.6	4.7	4.6	13.0
Unconditional purchase obligations with affiliates(4)	132.1	2.5	9.7	8.9	9.1	9.4	92.5
Interest payments(5)	11.9	1.2	4.7	4.7	1.3	—	—
Total	$329.6	$7.7	$24.4	$23.4	$144.9	$16.8	$ 112.4

(1) We entered into a credit facility during 2011. The credit facility included a $125.0 million term loan and a $25.0 million revolving credit facility. As of September 30, 2013, no amounts were outstanding under the revolving credit facility.

(2) We lease various facilities and equipment, primarily railcars, under non-cancelable operating leases for various periods.

(3) The amount includes commitments under an electric supply agreement with the city of Coffeyville, Kansas, a product supply agreement with Linde and a pet coke supply agreement with HollyFrontier Corporation. The agreement with HollyFrontier Corporation has an initial term that ends in 2013 and is subject to renewal.

(4) The amounts include commitments under our long-term pet coke supply agreement with CRRM, a wholly-owned subsidiary of CVR Refining, having an initial term that ends in 2027, subject to renewal. The Partnership's purchase obligations for pet coke from CRRM have been derived from a calculation of the average pet coke price paid to CRRM over the preceding two year period.

(5) Interest payments are based on the current interest rate at September 30, 2013.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). ASU 2013-02 requires us to present information about reclassification adjustments from accumulated other comprehensive income in the financial statements in a single footnote or parenthetically on the face of the financial statements based on the source and the income statement line items affected by the reclassification. The standard is effective for interim and annual periods beginning January 1, 2013 and will be applied prospectively. We adopted this standard as of January 1, 2013. The adoption of this standard expanded our condensed consolidated financial statement footnote disclosures.

Critical Accounting Policies

Our critical accounting policies are disclosed in the "Critical Accounting Policies" section of our Annual Report on Form 10-K for the year ended December 31, 2012. No modifications have been made to our critical accounting policies.

CVR PARTNERS, LP AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

On June 30 and July 1, 2011, CRNF entered into two floating-to-fixed interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of its $125.0 million floating rate term debt which matures in April 2016. The aggregate notional amount covered under these agreements, which commenced on August 12, 2011 and expire on February 12, 2016, totals $62.5 million (split evenly between the two agreement dates). Under the terms of the interest rate swap agreement entered into on June 30, 2011, CRNF receives a floating rate based on three month LIBOR and pays a fixed rate of 1.94%. Under the terms of the interest rate swap agreement entered into on July 1, 2011, CRNF receives a floating rate based on three month LIBOR and pays a fixed rate of 1.975%. Both swap agreements will be settled every 90 days. The effect of these swap agreements is to lock in a fixed rate of interest of approximately 1.96% plus the applicable margin paid to lenders over three month LIBOR as governed by the CRNF credit agreement. The agreements were designated as cash flow hedges at inception and accordingly, the effective portion of the gain or loss on the swap is reported as a component of accumulated other comprehensive income (loss) (“AOCI”), and will be reclassified into interest expense when the interest rate swap transaction affects earnings. The ineffective portion of the gain or loss will be recognized immediately in current interest expense.

The Partnership still has exposure to interest rate risk on 50% of its $125.0 million floating rate term debt. A 1% increase over the Eurodollar floor spread of 3.5%, as specified in the credit agreement, would increase interest cost to the Partnership by approximately $625,000 on an annualized basis, thus decreasing net income by the same amount.

Commodity Price, Foreign Currency Exchange and Non-Operating Risks

We do not currently use derivative financial instruments to manage risks related to changes in prices of commodities (e.g., ammonia, UAN or pet coke). Given that our business is currently based entirely in the United States, we are not directly exposed to foreign currency exchange rate risk. We do not engage in activities that expose us to speculative or non-operating risks, including derivative trading activities. In the opinion of our management, there is no derivative financial instrument that correlates effectively with, and has a trading volume sufficient to hedge, our firm commitments and forecasted commodity purchase or sales transactions. Our management will continue to monitor whether financial derivatives become available which could effectively hedge identified risks and management may in the future elect to use derivative financial instruments consistent with our overall business objectives to avoid unnecessary risk and to limit, to the extent practical, risks associated with our operating activities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2013, we have evaluated, under the direction of our Executive Chairman, Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon and as of the date of that evaluation, our Executive Chairman, Chief Executive Officer and Chief Financial 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 and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any system of disclosure controls and procedures is based in part upon assumptions about the likelihood of future events. Due to these and other inherent limitations of any such system, there can be no assurance that any design will always succeed in achieving its stated goals under all potential future conditions.

CVR PARTNERS, LP AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in Internal Control Over Financial Reporting

There has been no material change in our internal control over financial reporting required by Rule 13a-15 of the Exchange Act that occurred during the fiscal quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

See Note 14 ("Commitments and Contingencies") to Part I, Item I of this Report, which is incorporated by reference into this Part II, Item 1, for a description of the 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 Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth information regarding repurchases of our common units during the nine months ended September 30, 2013. These represent common units that employees and directors elected to surrender to the Partnership to satisfy certain minimum tax withholding and other tax obligations upon the vesting of units. The Partnership does not consider this to be a unit buyback program.

Period	Total Number of Units Purchased	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Units that May Yet Be Purchased Under the Plans or Programs
June 1, 2013 to June 30, 2013	7,084	$24.23	—	—
July 1, 2013 to July 31, 2013	—	—	—	—
August 1, 2013 to August 31, 2013	1,169	$18.87	—	—
September 1, 2013 to September 30, 2013	—	—	—	—
Total	8,253	$23.47	—	—

Item 6. Exhibits

Exhibit Number	Exhibit Title
31.1*	Certification of the Executive Chairman pursuant to Rule 13a-14(a) or 15(d)-14(a) under the Securities Exchange Act.
31.2*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) under the Securities Exchange Act.
31.3*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15(d)-14(a) under the Securities Exchange Act.
32.1*	Certification of the Executive Chairman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information for CVR Partners, LP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, filed with the SEC on November 1, 2013, formatted in XBRL ("Extensible Business Reporting Language") includes: (1) Condensed Consolidated Balance Sheets (unaudited), (2) Condensed Consolidated Statements of Operations (unaudited), (3) Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited), (4) Condensed Consolidated Statements of Cash Flows (unaudited), (5) Condensed Consolidated Statement of Partners' Capital (unaudited) and (6) the Notes to Condensed Consolidated Financial Statements (unaudited), tagged in detail.

* Filed herewith.

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 or 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 or its business or operations on the date hereof.

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
November 1, 2013	By: /s/ JOHN J. LIPINSKI Executive Chairman (Principal Executive Officer)
November 1, 2013	By: /s/ BYRON R. KELLEY Chief Executive Officer (Principal Executive Officer)
November 1, 2013	By: /s/ SUSAN M. BALL Chief Financial Officer (Principal Financial and Accounting Officer)