CVR ENERGY INC
Form 10-Q
October 31, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

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

For the transition period from to

Commission file number: 001-33492

CVR ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	61-1512186
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2277 Plaza Drive, Suite 500	
Sugar Land, Texas	77479
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

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

There were 86,831,050 shares of the registrant's common stock outstanding at October 25, 2016.

CVR ENERGY, INC. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
For The Quarter Ended September 30, 2016

GLOSSARY OF SELECTED TERMS

The following are definitions of certain terms used in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (this "Report").

2015 Form 10-K — Our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 19, 2016.

2021 Notes — $320.0 million aggregate principal amount of 6.5% Senior Notes due 2021, which were issued by CVR Nitrogen and CVR Nitrogen Finance Corporation.

2022 Notes — $500.0 million aggregate principal amount of 6.5% Senior Notes due 2022, which were issued by Refining, LLC and Coffeyville Finance on October 23, 2012 and fully and unconditionally guaranteed by the Refining Partnership and each of Refining LLC's domestic subsidiaries other than Coffeyville Finance.

2023 Notes — $645.0 million aggregate principal amount of 9.25% Senior Notes due 2023, which were issued through CVR Partners and CVR Nitrogen Finance Corporation.

2-1-1 crack spread — The approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of distillate. The 2-1-1 crack spread is expressed in dollars per barrel.

Amended and Restated ABL Credit Facility — The Refining Partnership's senior secured asset based revolving credit facility with a group of tenders and Wells Fargo as administrative agent and collateral agent.

ABL Credit Facility —The Nitrogen Fertilizer Partnership's senior secured asset based revolving credit facility with a group of lenders and UBS AG, Stamford Branch, as administrative agent and collateral agent.

ammonia — Ammonia is a direct application fertilizer and is primarily used as a building block for other nitrogen products for industrial applications and finished fertilizer products.

barrel — Common unit of measure in the oil industry which equates to 42 gallons.

blendstocks — Various compounds that are combined with gasoline or diesel from the crude oil refining process to make finished gasoline and diesel fuel; these may include natural gasoline, fluid catalytic cracking unit or FCCU gasoline, ethanol, reformate or butane, among others.

bpd — Abbreviation for barrels per day.

bpcd — Abbreviation for barrels per calendar day, which refers to the total number of barrels processed in a refinery within a year, divided by 365 days, thus reflecting all operational and logistical limitations.

bulk sales — Volume sales through third-party pipelines, in contrast to tanker truck quantity rack sales.

capacity — Capacity is defined as the throughput a process unit is capable of sustaining, either on a barrel per calendar or stream day basis. The throughput may be expressed in terms of maximum sustainable, nameplate or economic capacity. The maximum sustainable or nameplate capacities may not be the most economical. The economic capacity is the throughput that generally provides the greatest economic benefit based on considerations such as crude oil and other feedstock costs, product values and downstream unit constraints.

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

Change of Control Offer — The offer commenced on April 29, 2016 by CVR Nitrogen and CVR Nitrogen Finance Corporation to purchase any and all of the outstanding 2021 Notes at 101% of par value.

Coffeyville Fertilizer Facility — CVR Partners' nitrogen fertilizer manufacturing facility located in Coffeyville, Kansas.

Coffeyville Finance — Coffeyville Finance Inc., a wholly-owned subsidiary of Refining LLC and indirect wholly-owned subsidiary of the Refining Partnership.

corn belt — The primary corn producing region of the United States, which includes Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Ohio and Wisconsin.

crack spread — A simplified calculation that measures the difference between the price for light products and crude oil. For example, the 2-1-1 crack spread is often referenced and represents the approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of distillate.

Credit Parties — CRLLC and certain subsidiaries party to the Amended and Restated ABL Credit Facility.

CRLLC — Coffeyville Resources, LLC, a wholly-owned subsidiary of the Company.

CRPLLC — Coffeyville Resources Pipeline, LLC.

CRLLC Facility — The Nitrogen Fertilizer Partnership's $300.0 million senior term loan credit facility with CRLLC, which was repaid in full and terminated on June 10, 2016.

CRNF — Coffeyville Resources Nitrogen Fertilizers, LLC a subsidiary of the Nitrogen Fertilizer Partnership.

CRRM — Coffeyville Resources Refining and Marketing, LLC, a wholly-owned subsidiary of Refining LLC and indirect wholly-owned subsidiary of the Refining Partnership.

CVR Energy or CVR or Company — CVR Energy, Inc.

CVR Nitrogen — CVR Nitrogen, LP (formerly known as East Dubuque Nitrogen Partners, L.P. and also formerly known as Rentech Nitrogen Partners L.P.).

CVR Nitrogen GP — CVR Nitrogen GP, LLC (formerly known as East Dubuque Nitrogen GP, LLC and also formerly known as Rentech Nitrogen GP, LLC).

CVR Partners or the Nitrogen Fertilizer Partnership — CVR Partners, LP.

CVR Refining or the Refining Partnership — CVR Refining, LP.

distillates — Primarily diesel fuel, kerosene and jet fuel.

East Dubuque Facility — CVR Partners' nitrogen fertilizer manufacturing facility located in East Dubuque, Illinois.

East Dubuque Merger — The transactions contemplated by the Merger Agreement, whereby the Nitrogen Fertilizer Partnership acquired CVR Nitrogen and CVR Nitrogen GP on April 1, 2016.

EPA — The United States Environmental Protection Agency.

ethanol — A clear, colorless, flammable oxygenated hydrocarbon. Ethanol is typically produced chemically from ethylene, or biologically from fermentation of various sugars from carbohydrates found in agricultural crops and cellulosic residues from crops or wood. It is used in the United States as a gasoline octane enhancer and oxygenate.

Exchange Act — Securities Exchange Act of 1934, as amended.

farm belt — Refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.

feedstocks — Petroleum products, such as crude oil and natural gas liquids, that are processed and blended into refined products, such as gasoline, diesel fuel and jet fuel, during the refining process.

FIFO — First-in, first-out.

GAAP — U.S. generally accepted accounting principles.

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Group 3 — A geographic subset of the PADD II region comprising refineries in Oklahoma, Kansas, Missouri, Nebraska and Iowa. Current Group 3 refineries include the Refining Partnership's Coffeyville and Wynnewood refineries; the Valero Ardmore refinery in Ardmore, OK; HollyFrontier's Tulsa refinery in Tulsa, OK and El Dorado refinery in El Dorado, KS; Phillips 66's Ponca City refinery in Ponca City, OK; and CHS Inc.'s refinery in McPherson, KS.

heavy crude oil — A relatively inexpensive crude oil characterized by high relative density and viscosity. Heavy crude oils require greater levels of processing to produce high value products such as gasoline and diesel fuel.

independent petroleum refiner — A refiner that does not have crude oil exploration or production operations. An independent refiner purchases the crude oil throughputs in its refinery operations from third parties.

light crude oil — A relatively expensive crude oil characterized by low relative density and viscosity. Light crude oils require lower levels of processing to produce high value products such as gasoline and diesel fuel.

Magellan — Magellan Midstream Partners L.P., a publicly traded company, whose business is the transportation, storage and distribution of refined petroleum products.

Merger Agreement — The Agreement and Plan of Merger, dated as of August 9, 2015, whereby the Nitrogen Fertilizer Partnership acquired CVR Nitrogen and CVR Nitrogen GP.

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

MSCF — One thousand standard cubic feet, a customary gas measurement unit.

natural gas liquids — Natural gas liquids, often referred to as NGLs, are both feedstocks used in the manufacture of refined fuels, as well as products of the refining process. Common NGLs used include propane, isobutane, normal butane and natural gasoline.

Nitrogen Fertilizer Partnership credit facility — CRNF's $150.0 million term loan, $25.0 million revolving and $50.0 million uncommitted incremental credit facility, guaranteed by the Nitrogen Fertilizer Partnership, entered into with a group of lenders including Goldman Sachs Lending Partners LLC, as administrative and collateral agent, which was repaid in full and terminated on April 1, 2016.

PADD II — Midwest Petroleum Area for Defense District which includes Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee and Wisconsin.

petroleum coke (pet coke) — A coal-like substance that is produced during the refining process.

product pricing at gate — Product pricing at gate represents net sales less freight revenue divided by product sales volume in tons. Product pricing at gate is also referred to as netback.

rack sales — Sales which are made at terminals into third-party tanker trucks.

refined products — Petroleum products, such as gasoline, diesel fuel and jet fuel, that are produced by a refinery.

Refining LLC — CVR Refining, LLC, a wholly-owned subsidiary of the Refining Partnership.

Refining Partnership IPO — The initial public offering of 27,600,000 common units representing limited partner interests of the Refining Partnership, which closed on January 23, 2013 (which includes the underwriters' subsequently exercised option to purchase additional common units).

RFS — Renewable Fuel Standard of the EPA.

RINs — Renewable fuel credits, known as renewable identification numbers.

SEC — Securities and Exchange Commission.

Second Underwritten Offering — The second underwritten offering of 7,475,000 common units of the Refining Partnership, which closed on June 30, 2014 (which includes the underwriters' subsequently exercised option to purchase additional common units).

sour crude oil — A crude oil that is relatively high in sulfur content, requiring additional processing to remove the sulfur. Sour crude oil is typically less expensive than sweet crude oil.

spot market — A market in which commodities are bought and sold for cash and delivered immediately.

sweet crude oil — A crude oil that is relatively low in sulfur content, requiring less processing to remove the sulfur. Sweet crude oil is typically more expensive than sour crude oil.

Tender Offer — The cash tender offer commenced on April 29, 2016 by CVR Nitrogen and CVR Nitrogen Finance Corporation to purchase any and all of the outstanding 2021 Notes at 101.5% of par value.

throughput — The volume processed through a unit or a refinery or transported on a pipeline.

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

UAN — An aqueous solution of urea and ammonium nitrate used as a fertilizer.

Underwritten Offering — The underwritten offering of 13,209,236 common units of the Refining Partnership, which closed on May 20, 2013 (which includes the underwriters' subsequently exercised option to purchase additional common units).

Velocity — Velocity Central Oklahoma Pipeline LLC.

Vitol — Vitol Inc.

Vitol Agreement — The Amended and Restated Crude Oil Supply Agreement between CRRM and Vitol.

VPP — Velocity Pipeline Partners, LLC.

WCS — Western Canadian Select crude oil, a medium to heavy, sour crude oil, characterized by an American Petroleum Institute gravity ("API gravity") of between 20 and 22 degrees and a sulfur content of approximately 3.3 weight percent.

Wells Fargo — Wells Fargo Bank, National Association.

Wells Fargo Credit Agreement — CVR Nitrogen's credit agreement with Wells Fargo, as successor-in-interest by assignment from General Electric Company, as administrative agent, which was repaid in April 2016 and terminated.

WTI — West Texas Intermediate crude oil, a light, sweet crude oil, characterized by an API gravity between 39 and 41 degrees and a sulfur content of approximately 0.4 weight percent that is used as a benchmark for other crude oils.

WTS — West Texas Sour crude oil, a relatively light, sour crude oil, characterized by an API gravity of between 30 and 32 degrees and a sulfur content of approximately 2.0 weight percent.

yield — The percentage of refined products that is produced from crude oil and other feedstocks.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016	December 31, 2015
	(unaudited)	
	(in millions, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents (including $351.2 and $237.3, respectively, of consolidated variable interest entities ("VIEs"))	$762.6	$765.1
Accounts receivable of VIEs, net of allowance for doubtful accounts of $0.4 and $0.3, respectively	139.9	95.8
Inventories of VIEs	323.0	289.9
Prepaid expenses and other current assets (including $61.1 and $101.2, respectively, of VIEs)	64.9	104.3
Income tax receivable (including $0.2 and $0.0, respectively, of VIEs)	6.4	6.9
Due from parent	2.7	11.6
Total current assets	1,299.5	1,273.6
Property, plant and equipment, net of accumulated depreciation (including $2,668.4 and $1,942.6, respectively, of VIEs)	2,694.7	1,967.1
Intangible assets of VIEs, net	0.2	0.2
Goodwill of VIEs	41.0	41.0
Other long-term assets (including $16.8 and $13.0, respectively, of VIEs)	19.6	17.5
Total assets	$4,055.0	$3,299.4
LIABILITIES AND EQUITY		
Current liabilities:		
Note payable and capital lease obligations of VIEs	$1.8	$1.6
Current portion of long-term debt of VIEs	—	124.8
Accounts payable (including $213.1 and $258.0, respectively, of VIEs)	217.3	261.5
Personnel accruals (including $19.5 and $21.7, respectively, of VIEs)	41.1	45.7
Accrued taxes other than income taxes of VIEs	22.9	23.5
Deferred revenue of VIEs	5.3	3.1
Other current liabilities (including $168.2 and $23.9, respectively, of VIEs)	168.5	24.4
Total current liabilities	456.9	484.6
Long-term liabilities:		
Long-term debt and capital lease obligations of VIEs, net of current portion	1,164.5	540.7
Deferred income taxes (including $0.7 and $0.1, respectively, of VIEs)	642.6	639.7
Other long-term liabilities (including $6.1 and $3.1, respectively, of VIEs)	31.9	33.9
Total long-term liabilities	1,839.0	1,214.3
Commitments and contingencies		
Equity:		
CVR stockholders' equity:		
Common stock $0.01 par value per share, 350,000,000 shares authorized, 86,929,660 shares issued	0.9	0.9

Additional paid-in-capital	1,197.6	1,174.7
Retained deficit	(301.8)	(189.2)
Treasury stock, 98,610 shares at cost	(2.3)	(2.3)
Accumulated other comprehensive income, net of tax	—	—
Total CVR stockholders' equity	894.4	984.1
Noncontrolling interest	864.7	616.4
Total equity	1,759.1	1,600.5
Total liabilities and equity	$4,055.0	$3,299.4

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(unaudited)			
	(in millions, except per share data)			
Net sales	$1,240.3	$1,408.8	$3,429.0	$4,421.9
Operating costs and expenses:				
Cost of product sold (exclusive of depreciation and amortization)	1,005.7	1,076.7	2,719.3	3,342.5
Direct operating expenses (exclusive of depreciation and amortization)	129.5	145.8	409.2	372.7
Flood insurance recovery	—	—	—	(27.3)
Selling, general and administrative expenses (exclusive of depreciation and amortization)	27.8	26.1	81.7	78.5
Depreciation and amortization	50.1	38.7	140.8	123.2
Total operating costs and expenses	1,213.1	1,287.3	3,351.0	3,889.6
Operating income	27.2	121.5	78.0	532.3
Other income (expense):				
Interest expense and other financing costs	(26.2)	(11.9)	(56.8)	(36.5)
Interest income	0.2	0.3	0.5	0.7
Gain (loss) on derivatives, net	(1.7)	11.8	(4.8)	(52.2)
Loss on extinguishment of debt	—	—	(5.1)	—
Other income, net	5.0	0.3	5.5	36.6
Total other income (expense)	(22.7)	0.5	(60.7)	(51.4)
Income before income tax expense	4.5	122.0	17.3	480.9
Income tax expense	2.5	23.1	2.3	105.2
Net income	2.0	98.9	15.0	375.7
Less: Net income (loss) attributable to noncontrolling interest	(3.4)	41.0	(2.6)	161.1
Net income attributable to CVR Energy stockholders	$5.4	$57.9	$17.6	$214.6
Basic and diluted earnings per share	$0.06	$0.67	$0.20	$2.47
Dividends declared per share	$0.50	$0.50	$1.50	$1.50
Weighted-average common shares outstanding:				
Basic and diluted	86.8	86.8	86.8	86.8

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(unaudited) (in millions)			
Net income	$2.0	$98.9	$15.0	$375.7
Other comprehensive income				
Unrealized gain on available-for-sale securities, net of tax of $0.0, $0.0, $0.2 and $12.6, respectively	—	—	0.3	19.2
Net gain reclassified into income on sale of available-for-sale securities, net of tax of ($0.2), $0.0, ($0.2) and ($8.0), respectively (Note 13)	(0.3)	—	(0.3)	(12.1)
Net gain reclassified into income on reclassification of available-for-sale securities to trading securities, net of tax of $0.0, $0.0, $0.0 and ($4.6), respectively (Note 13)	—	—	—	(7.1)
Change in fair value of interest rate swaps, net of tax of $0.0, $0.0, $0.0 and $0.0, respectively	—	—	—	(0.1)
Net loss reclassified into income on settlement of interest rate swaps, net of tax of $0.0, $0.1, $0.0 and $0.2, respectively (Note 14)	—	0.2	0.1	0.6
Total other comprehensive income (loss)	(0.3)	0.2	0.1	0.5
Comprehensive income	1.7	99.1	15.1	376.2
Less: Comprehensive income (loss) attributable to noncontrolling interest	(3.4)	41.1	(2.6)	161.4
Comprehensive income attributable to CVR Energy stockholders	$5.1	$58.0	$17.7	$214.8

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Common Stockholders							
	Shares Issued	$0.01 Par Value Common Stock	Additional Paid-In Capital	Retained Deficit	Treasury Stock	Total CVR Stockholders' Equity	Noncontrolling Interest	Total Equity
	(unaudited) (in millions, except share data)							
Balance at December 31, 2015	86,929,660	$ 0.9	$ 1,174.7	$ (189.2)	$ (2.3)	$ 984.1	$ 616.4	$ 1,600.5
Dividends paid to CVR Energy stockholders	—	—	—	(130.2)	—	(130.2)	—	(130.2)
Distributions from CVR Partners to public unitholders	—	—	—	—	—	—	(42.0)	(42.0)
Impact of CVR Partners' common units issuance for the East Dubuque Merger, net of tax of $20.0	—	—	22.9	—	—	22.9	292.8	315.7
Net income	—	—	—	17.6	—	17.6	(2.6)	15.0
Other comprehensive income, net of tax	—	—	—	—	—	—	0.1	0.1
Balance at September 30, 2016	86,929,660	$ 0.9	$ 1,197.6	$ (301.8)	$ (2.3)	$ 894.4	$ 864.7	$ 1,759.1

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2016	2015
	(unaudited)	
	(in millions)	
Cash flows from operating activities:		
Net income	$15.0	$375.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	140.8	123.2
Allowance for doubtful accounts	0.1	—
Amortization of deferred financing costs and original issue discount	2.4	2.1
Amortization of debt fair value adjustment	1.3	—
Deferred income taxes expense (benefits)	(22.5)	(28.0)
Loss on disposition of assets	0.4	1.7
Loss on extinguishment of debt	5.1	—
Share-based compensation	5.7	9.1
Gain on sale of available-for-sale securities	(4.9)	(20.1)
Unrealized gain on securities	(0.3)	—
Loss on derivatives, net	4.8	52.2
Current period settlements on derivative contracts	35.2	(34.0)
Changes in assets and liabilities:		
Accounts receivable	(35.3)	4.0
Inventories	18.5	44.9
Prepaid expenses and other current assets	6.2	36.9
Due to/from parent	8.9	78.0
Other long-term assets	0.1	(0.3)
Accounts payable	(42.3)	4.0
Accrued income taxes	0.4	7.3
Deferred revenue	(27.7)	(11.2)
Other current liabilities	107.3	(33.3)
Other long-term liabilities	(0.3)	0.1
Net cash provided by operating activities	218.9	612.3
Cash flows from investing activities:		
Capital expenditures	(105.6)	(141.9)
Proceeds from sale of assets	—	0.1
Acquisition of CVR Nitrogen, net of cash acquired	(63.9)	—
Purchase of securities	(4.2)	—
Investment in affiliates	(3.2)	—
Purchase of available-for-sale securities	(14.4)	—
Proceeds from sale of available-for-sale securities	19.3	68.0
Net cash used in investing activities	(172.0)	(73.8)
Cash flows from financing activities:		
Payment of capital lease obligations	(1.2)	(1.1)
Principal and premium payments on 2021 Notes	(320.5)	—
Principal payments on CRNF credit facility	(125.0)	—

Payment of revolving debt	(49.1)	—
Payment of deferred financing costs	(10.2)	—
Proceeds on issuance of 2023 Notes, net of original issue discount	628.8	—
Dividends to CVR Energy's stockholders	(130.2)	(130.2)
Distributions to CVR Refining's noncontrolling interest holders	—	(106.1)
Distributions to CVR Partners' noncontrolling interest holders	(42.0)	(42.8)
Net cash used in financing activities	(49.4)	(280.2)
Net increase (decrease) in cash and cash equivalents	(2.5)	258.3
Cash and cash equivalents, beginning of period	765.1	753.7
Cash and cash equivalents, end of period	$762.6	$1,012.0

Supplemental disclosures:		
Cash paid for income taxes, net of refunds	$15.2	$47.8
Cash paid for interest, net of capitalized interest of $5.0 and $2.3 in 2016 and 2015, respectively	$26.9	$26.1
Non-cash investing and financing activities:		
Construction in process additions included in accounts payable	$14.6	$36.7
Change in accounts payable related to construction in process additions	$7.7	$15.1
Fair value of common units issued in a business combination	$335.7	$—
Fair value of debt assumed in a business combination	$367.5	$—
Reduction of proceeds from 2023 Notes from underwriting discount	$16.1	$—

See accompanying notes to the condensed consolidated financial statements.

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CVR ENERGY, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016
(unaudited)

(1) Organization and History of the Company and Basis of Presentation

Organization

The "Company," "CVR Energy" or "CVR" are used in this Report to refer to CVR Energy, Inc. and, unless the context otherwise requires, its subsidiaries.

CVR is a diversified holding company primarily engaged in the petroleum refining and nitrogen fertilizer manufacturing industries through its holdings in CVR Refining, LP ("CVR Refining" or the "Refining Partnership") and CVR Partners, LP ("CVR Partners" or the "Nitrogen Fertilizer Partnership"). The Refining Partnership is an independent petroleum refiner and marketer of high value transportation fuels which owns a complex full coking medium-sour crude oil refinery in Coffeyville, Kansas and a complex crude oil refinery in Wynnewood, Oklahoma. The Nitrogen Fertilizer Partnership produces and markets nitrogen fertilizers in the form of UAN and ammonia. The Company reports in two business segments: the petroleum segment (the operations of CVR Refining) and the nitrogen fertilizer segment (the operations of CVR Partners).

CVR's common stock is listed on the NYSE under the symbol "CVI." On May 7, 2012, an affiliate of Icahn Enterprises L.P. ("IEP") announced that they had acquired control of CVR pursuant to a tender offer for all of the Company's common stock (the "IEP Acquisition"). As of September 30, 2016, IEP and its affiliates owned approximately 82% of the Company's outstanding shares.

CVR Partners, LP

On April 13, 2011, the Nitrogen Fertilizer Partnership completed the initial public offering of its common units representing limited partnership interests (the "Nitrogen Fertilizer Partnership IPO"). The common units, which are listed on the NYSE, began trading on April 8, 2011 under the symbol "UAN." In connection with the Nitrogen Fertilizer Partnership IPO and through May 27, 2013, the Company recorded a 30% noncontrolling interest for the common units sold into the public market. On May 28, 2013, Coffeyville Resources, LLC ("CRLLC"), a wholly-owned subsidiary of the Company, completed a registered public offering whereby it sold 12,000,000 Nitrogen Fertilizer Partnership common units to the public (the "Secondary Offering").

Immediately subsequent to the closing of the Secondary Offering and through March 31, 2016, public security holders held approximately 47% of the outstanding Nitrogen Fertilizer Partnership common units, and CRLLC held approximately 53% of the outstanding Nitrogen Fertilizer Partnership common units. As a result of the Nitrogen Fertilizer Partnership's acquisition of CVR Nitrogen, LP and issuance of the unit consideration, the noncontrolling interest related to the Nitrogen Fertilizer Partnership reflected in our Consolidated Financial Statements on April 1, 2016 and from such date and as of September 30, 2016 was approximately 66%. In addition, CRLLC owns 100% of the Nitrogen Fertilizer Partnership's general partner, CVR GP, LLC, which only holds a non-economic general partner interest. The noncontrolling interest reflected on the Condensed Consolidated Balance Sheets of CVR is impacted by the net income of, and distributions from, the Nitrogen Fertilizer Partnership.

The Nitrogen Fertilizer Partnership has adopted a policy pursuant to which the Nitrogen Fertilizer Partnership will distribute all of the available cash it generates each quarter. The available cash for each quarter will be determined by the board of directors of the Nitrogen Fertilizer Partnership's general partner following the end of such quarter. The partnership agreement does not require that the Nitrogen Fertilizer Partnership make cash distributions on a quarterly basis or at all, and the board of directors of the general partner of the Nitrogen Fertilizer Partnership can change the Nitrogen Fertilizer Partnership's distribution policy at any time.

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The Nitrogen Fertilizer Partnership is operated by CVR's senior management (together with other officers of the general partner) pursuant to a services agreement among CVR, the general partner and the Nitrogen Fertilizer Partnership. The Nitrogen Fertilizer Partnership's general partner manages the operations and activities of the Nitrogen Fertilizer Partnership, subject to the terms and conditions specified in the partnership agreement. The operations of the general partner in its capacity as general partner are managed by its board of directors. 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 the board of directors of the general partner. The members of the board of directors of the general partner are not elected by the Nitrogen Fertilizer Partnership's common unitholders and are not subject to re-election on a regular basis. The officers of the general partner manage the day-to-day affairs of the business of the Nitrogen Fertilizer Partnership. CVR, the Nitrogen Fertilizer Partnership, their respective subsidiaries and the general partner are parties to a number of agreements to regulate certain business relations between them. Certain of these agreements were amended in connection with the Nitrogen Fertilizer Partnership IPO.

CVR Refining, LP

On January 23, 2013, the Refining Partnership completed the initial public offering of its common units representing limited partner interests. The common units, which are listed on the NYSE, began trading on January 17, 2013 under the symbol "CVRR." On May 20, 2013, the Refining Partnership completed an underwritten offering (the "Underwritten Offering") by selling additional common units to the public. In connection with the Underwritten Offering, American Entertainment Properties Corporation ("AEPC"), an affiliate of IEP, also purchased common units in a privately negotiated transaction with a subsidiary of CVR, which was completed on May 29, 2013.

On June 30, 2014, the Refining Partnership completed a second underwritten offering (the "Second Underwritten Offering"). Additionally, on July 24, 2014, the Refining Partnership sold additional common units to the public in connection with the underwriters' exercise of their option to purchase additional common units.

As of September 30, 2016, public security holders held approximately 34% of the Refining Partnership's outstanding common units (including common units owned by affiliates of IEP, representing approximately 3.9% of the Refining Partnership's outstanding common units), and CVR Refining Holdings, LLC (“CVR Refining Holdings”), a subsidiary of CRLLC, held approximately 66% of the Refining Partnership's outstanding common units. In addition, CVR Refining Holdings owns 100% of the Refining Partnership’s general partner, CVR Refining GP, LLC ("CVR Refining GP"), which only holds a non-economic general partner interest. The noncontrolling interest reflected on the Condensed Consolidated Balance Sheets of CVR is impacted by the net income of, and distributions from the Refining Partnership.

On August 2, 2016, an affiliate of IEP sold 250,000 common units of CVR Refining. As a result of this transaction, CVR Refining GP and its affiliates collectively own 69.99% of the CVR Refining's outstanding common units. Pursuant to CVR Refining's partnership agreement, in certain circumstances, CVR Refining GP has the right to purchase all, but not less than all, of CVR Refining common units held by unaffiliated unit holders at a price not less than their then-current market price, as calculated pursuant to the terms of such partnership agreement (the “Call Right”). Pursuant to the terms of the partnership agreement, because CVR Refining GP and its affiliates’ holdings were reduced to less than 70.0% of CVR Refining's outstanding common units, the ownership threshold for the application of such Call Right was permanently reduced from 95% to 80%. Accordingly, if at any time CVR Refining GP and its affiliates own more than 80% of CVR Refining common units, it will have the right, but not the obligation, to exercise such Call Right.

The Refining Partnership is party to a services agreement pursuant to which the Refining Partnership and its general partner obtain certain management and other services from CVR Energy. The Refining Partnership's general partner manages the Refining Partnership's activities subject to the terms and conditions specified in the Refining Partnership's partnership agreement.The operations of its general partner, in its capacity as general partner, are managed by its board of directors. Actions by its general partner that are made in its individual capacity are made by CVR Refining Holdings as the sole member of the Refining Partnership's general partner and not by the board of directors of its general partner. The members of the board of directors of the Refining Partnership's general partner are not elected by the Refining Partnership's common unitholders and are not subject to re-election on a regular basis. The officers of the general partner manage the day-to-day affairs of the business of the Refining Partnership.

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The Refining Partnership has adopted a policy pursuant to which it will distribute all of the available cash it generates each quarter. The available cash for each quarter will be determined by the board of directors of the Refining Partnership's general partner following the end of such quarter. The partnership agreement does not require that the Refining Partnership make cash distributions on a quarterly basis or at all, and the board of directors of the general partner of the Refining Partnership can change the distribution policy at any time.

Basis of Presentation

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"). The condensed consolidated financial statements include the accounts of CVR and its direct and indirect subsidiaries including the Nitrogen Fertilizer Partnership, the Refining Partnership and their respective subsidiaries, as discussed further below. The ownership interests of noncontrolling investors in CVR's subsidiaries are recorded as a noncontrolling interest included as a separate component of equity for all periods presented. All intercompany account balances and transactions have been eliminated in consolidation. Certain information and footnotes required for complete financial statements under GAAP have been condensed or omitted pursuant to SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the December 31, 2015 audited consolidated financial statements and notes thereto included in CVR's Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on February 19, 2016 (the "2015 Form 10-K").

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) 2015-02, "Consolidations (Topic 810) - Amendments to the Consolidation Analysis" (“ASU 2015-02”), which amended previous consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. Under this analysis, limited partnerships and other similar entities are considered a variable interest entity (“VIE”) unless the limited partners hold substantive kick-out rights or participating rights. Management has determined that the Refining Partnership and the Nitrogen Fertilizer Partnership are VIEs because the limited partners of CVR Refining and CVR Partners lack both substantive kick-out rights and participating rights. As such, management evaluated the qualitative criteria under FASB ASC Topic 810 - Consolidation in conjunction with ASU 2015-02 to make a determination whether the Refining Partnership and the Nitrogen Fertilizer Partnership should be consolidated on the Company's financial statements. ASC Topic 810-10 requires the primary beneficiary of a variable interest entity's activities to consolidate the VIE. The primary beneficiary is identified as the enterprise that has a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and b) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The standard requires an ongoing analysis to determine whether the variable interest gives rise to a controlling financial interest in the VIE. Based upon the general partner’s roles and rights as afforded by the partnership agreements and its exposure to losses and benefits of each of the partnerships through its significant limited partner interests, intercompany credit facilities, and services agreements, CVR determined that it is the primary beneficiary of both the Refining Partnership and the Nitrogen Fertilizer Partnership. Based upon that evaluation, the consolidated financial statements of CVR continue to consolidate both the Refining and Nitrogen Fertilizer Partnerships.

In the opinion of the Company's management, the accompanying condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary to fairly present the financial position of the Company as of September 30, 2016 and December 31, 2015, the results of operations and comprehensive income for the three and nine month periods ended September 30, 2016 and 2015, changes in equity for the nine month period ended September 30, 2016 and cash flows of the Company for the nine month periods ended September 30, 2016 and 2015.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Results of operations and cash flows for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2016 or any other interim or annual period.

(2) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard was originally effective for interim and annual periods beginning after December 15, 2016 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. On July 9, 2015, the FASB approved a one-year deferral of the effective date making the standard effective for interim and annual periods beginning after December 15, 2017. The FASB will continue to permit entities to adopt the standard on the original effective date if they choose. The Company will adopt this standard as of January 1, 2018 using the modified retrospective application method. Given the complexity of the new guidance, the Company is continuing to evaluate the impact of the standard on its consolidated financial statements and footnote disclosures.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidations (Topic 810) - Amendments to the Consolidation Analysis" ("ASU 2015-02"), which amended previous consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. Under this analysis, limited partnerships and other similar entities will be considered a VIE unless the limited partners hold substantive kick-out rights or participating rights. The standard is effective for interim and annual periods beginning after December 15, 2015. The Company adopted ASU 2015-02 as of January 1, 2016. Refer to Note 1 ("Organization and History of the Company and Basis of Presentation") for more information.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The new standard required that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. The standard was effective for interim and annual periods beginning after December 15, 2015 and is required to be applied on a retrospective basis. Early adoption is permitted. The Company adopted ASU 2015-03 as of January 1, 2016 and applied the standard retrospectively to the Condensed Consolidated Balance Sheet. Refer to Note 10 ("Long-Term Debt") for further details.

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

(3) Acquisition

On April 1, 2016, the Nitrogen Fertilizer Partnership completed the previously announced transactions (the "East Dubuque Merger") contemplated by the Agreement and Plan of Merger, dated as of August 9, 2015 (the "Merger Agreement"), whereby the the Nitrogen Fertilizer Partnership acquired CVR Nitrogen, LP (“CVR Nitrogen”) (formerly known as East Dubuque Nitrogen Partners, L.P. and also formerly known as Rentech Nitrogen Partners L.P.) and CVR Nitrogen GP, LLC ("CVR Nitrogen GP") (formerly known as East Dubuque Nitrogen GP, LLC and also formerly known as Rentech Nitrogen GP, LLC), a Delaware limited liability company. Pursuant to the East Dubuque Merger, the Nitrogen Fertilizer Partnership acquired a nitrogen fertilizer manufacturing facility located in East Dubuque, Illinois (the "East Dubuque Facility").

Under the terms of the Merger Agreement, holders of CVR Nitrogen common units eligible to receive consideration received 1.04 common units (the "unit consideration") representing limited partner interests in CVR Partners ("CVR Partners common units") and $2.57 in cash, without interest (the "cash consideration" and together with the unit consideration, the "merger consideration"), for each CVR Nitrogen common unit. Pursuant to the Merger Agreement, CVR Partners issued approximately 40.2 million CVR Partners common units and paid approximately $99.2 million in cash consideration to CVR Nitrogen common unitholders and certain holders of CVR Nitrogen phantom units discussed below.

Phantom units granted and outstanding under CVR Nitrogen's equity plans and held by an employee who continued in the employment of a CVR Partners-affiliated entity upon closing of the East Dubuque Merger were canceled and replaced with new incentive awards of substantially equivalent value and on similar terms. See Note 4 ("Share-Based Compensation") for further discussion. Each phantom unit granted and outstanding and held by (i) an employee who did not continue in employment of a CVR Partners-affiliated entity, or (ii) a director of CVR Nitrogen GP, upon closing of the East Dubuque Merger, vested in full and the holders thereof received the merger consideration.

In accordance with the FASB's Accounting Standards Codification ("ASC") Topic 805 — Business Combinations ("ASC 805"), the Nitrogen Fertilizer Partnership accounted for the East Dubuque Merger as an acquisition of a business with CVR Partners as the acquirer. ASC 805 requires that the consideration transferred be measured at the current market price at the date of the closing of the East Dubuque Merger. The aggregate merger consideration was approximately $802.4 million, including the fair value of the unit consideration of $335.7 million, the cash consideration of $99.2 million, and $367.5 million fair value of assumed debt.

Parent Affiliate Units

In March 2016, CVR Energy purchased 400,000 CVR Nitrogen common units, representing approximately 1% of the then outstanding CVR Nitrogen limited partner interests. Pursuant to the Merger Agreement, any CVR Nitrogen common units held of record by an affiliate of CVR Partners and designated in writing as parent affiliate units remained outstanding as CVR Nitrogen common units following the effective time of the East Dubuque Merger and such affiliate did not receive any merger consideration for those units. As such, CVR Energy did not receive merger consideration for these designated CVR Nitrogen common units. As a result of the East Dubuque Merger, on April 1, 2016, the fair value of the CVR Nitrogen common units of $4.6 million was reclassified as an investment in consolidated subsidiary, which is a non-cash investing activity during the second quarter of 2016. Subsequent to the East Dubuque Merger, the Nitrogen Fertilizer Partnership purchased the 400,000 CVR Nitrogen common units from CVR Energy during the second quarter of 2016 for $5.0 million. The Nitrogen Fertilizer Partnership owns 100% of the outstanding limited partners interests of CVR Nitrogen as of September 30, 2016.

Purchase Price Consideration

A summary of the total purchase price is as follows:

	Purchase Price (in millions)
Fair value of CVR Partners common units issued, as of the close of the East Dubuque Merger	$ 335.7
Cash payment to CVR Nitrogen common unitholders and certain phantom unit holders	99.2
Fair value of consideration transferred	434.9
Fair value of parent affiliate units (1)	4.6
Total purchase price consideration to be allocated	$ 439.5

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

	Fair Value of Unit Consideration (in thousands, except per unit data)
CVR Nitrogen common units outstanding, as of the close of the merger	38,985
Less: Parent affiliate units (1)	400
Net units subject to merger consideration	38,585
Unit consideration per CVR Nitrogen common unit	1.04
Number of CVR Partners common units issued for merger consideration	40,129
Number of CVR Partners common units issued for CVR Nitrogen phantom units issued to noncontinuing employees and CVR Nitrogen board members (2)	26
Total number of CVR Partners units issued	40,155
Fair value per CVR Partners common unit, as of the close of the East Dubuque Merger	$ 8.36
Fair value of CVR Partners common units issued	$ 335.7

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

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

Merger-Related Indebtedness

CVR Nitrogen’s debt arrangements that remained in place after the closing date of the East Dubuque Merger included $320.0 million of its 6.5% notes due 2021 (the "2021 Notes"). A portion of the 2021 Notes were repurchased in June 2016, as discussed further in Note 10 ("Long-Term Debt").

Immediately prior to the East Dubuque Merger, CVR Nitrogen also had outstanding balances under a credit agreement with Wells Fargo Bank, National Association, as successor-in-interest by assignment from General Electric Company, as administrative agent (the "Wells Fargo Credit Agreement"). The Wells Fargo Credit Agreement consisted of a $50.0 million senior secured revolving credit facility with a $10.0 million letter of credit sublimit. In connection with the closing of the East Dubuque Merger, the Nitrogen Fertilizer Partnership paid $49.4 million for the outstanding balance, accrued interest and fees under the Wells Fargo Credit Agreement and the Wells Fargo Credit Agreement was canceled.

Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the purchase price was allocated to CVR Nitrogen's net tangible assets based on their fair values as of April 1, 2016. Determining the fair value of net tangible assets requires judgment and involves the use of significant estimates and assumptions. The Nitrogen Fertilizer Partnership based its fair value estimates on assumptions it believes to be reasonable but are inherently uncertain. Although the Nitrogen Fertilizer Partnership believes its estimates of the fair value of the assets and liabilities acquired are accurate, these estimates are preliminary and are subject to change during the measurement period. This measurement period may extend up to one year from the acquisition date.

The following table, set forth below, displays the estimated purchase price allocated to CVR Nitrogen's net tangible assets based on their fair values as of April 1, 2016. There were no identifiable intangible assets.

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	Purchase Price Allocation (in millions)
Cash	$ 35.4
Accounts receivable	8.9
Inventories	49.5
Prepaid expenses and other current assets	5.2
Property, plant and equipment	774.9
Other long-term assets	1.1
Deferred revenue	(29.8)
Other current liabilities	(37.0)
Long-term debt	(367.5)
Other long-term liabilities	(1.2)
Total fair value of net assets acquired	439.5
Less: Cash acquired	35.4
Total consideration transferred, net of cash acquired	$ 404.1

Pro Forma Financial Information

Pro forma financial information for the three and nine months ended September 30, 2016 would not be materially different from the Company's results of operations presented in the Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2016.

Expenses Associated with the East Dubuque Merger

During the three months ended September 30, 2016 and 2015, the Nitrogen Fertilizer Partnership incurred approximately $0.7 million and $1.5 million, respectively, of legal and other professional fees and other merger related expenses, which were included in selling, general and administrative expenses (exclusive of depreciation and amortization). During the nine months ended September 30, 2016 and 2015, the Nitrogen Fertilizer Partnership incurred approximately $3.1 million and $1.5 million, respectively, of legal and other professional fees and other merger related expenses, which were included in selling, general and administrative expenses (exclusive of depreciation and amortization).

Noncontrolling Interest in CVR Partners

A summary of the effect of the change in CVR Energy's ownership interest in CVR Partners on the equity attributable to CVR Energy, as a result of CVR Partners issuance of the unit consideration in connection with the East Dubuque Merger, is as follows:

	Noncontrolling Interest (in millions)
Fair value of CVR Partners common units issued, as of the close of the East Dubuque Merger	$ 335.7
Less: Change in CVR Energy's noncontrolling interest in CVR Partner's equity due to the East Dubuque Merger	292.8
Adjustment to additional paid-in capital, as of the close of the East Dubuque Merger	$ 42.9

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(4) Share-Based Compensation

Long-Term Incentive Plan – CVR Energy

CVR has a Long-Term Incentive Plan ("LTIP"), which permits the grant of options, stock appreciation rights, restricted shares, restricted stock units, dividend equivalent rights, share awards and performance awards (including performance share units, performance units and performance-based restricted stock). As of September 30, 2016, only performance units remain outstanding under the LTIP. Individuals who are eligible to receive awards and grants under the LTIP include the Company's or its subsidiaries' employees, officers, consultants, advisors and directors. The LTIP authorized a share pool of 7,500,000 shares of the Company's common stock, 1,000,000 of which may be issued in respect of incentive stock options.

Performance Unit Awards

In December 2015, the Company entered into a performance unit award agreement (the "2015 Performance Unit Award Agreement") with its Chief Executive Officer. Compensation cost for the 2015 Performance Unit Award Agreement will be recognized over the performance cycle from January 1, 2016 to December 31, 2016. The performance unit award of 3,500 performance units under the 2015 Performance Unit Award Agreement represents the right to receive, upon vesting, a cash payment equal to $1,000 multiplied by the applicable performance factor. The performance factor is determined based on the level of attainment of the applicable performance objective, set forth as a percentage, which may range from 0-110%. The award has a performance cycle beginning on January 1, 2016 and ending on December 31, 2016. Seventy-five percent of the performance units attributable to the award are subject to a performance objective relating to the average barrels per day crude throughput during the performance cycle, and 25% of the performance units attributable to the award are subject to a performance objective relating to the average gathered crude barrels per day during the performance cycle. The performance objectives are set in accordance with approved levels of the business plan for the fiscal year during the performance cycle and therefore are considered reasonably possible of being achieved. The amount paid pursuant to the award, if any, will be paid following the end of the performance cycle for the award, but no later than March 6, 2017. Total compensation expense for the three and nine months ended September 30, 2016 related to the performance unit award was approximately $0.9 million and $2.6 million, respectively. As of September 30, 2016, the Company had a liability of $2.6 million for non-vested performance unit awards, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheet.

Long-Term Incentive Plan – CVR Partners

CVR Partners has a long-term incentive plan ("CVR Partners LTIP") that provides for the grant of options, unit appreciation rights, distribution equivalent rights, restricted units, phantom units and other unit-based awards, each in respect of common units. Individuals eligible to receive awards pursuant to the CVR Partners LTIP include (i) employees of the Nitrogen Fertilizer Partnership and its subsidiaries, (ii) employees of its general partner, (iii) members of its board of directors of the general partner, and (iv) certain employees, consultants and directors of CVR Energy who perform services for the benefit of the Nitrogen Fertilizer Partnership.

Through the CVR Partners LTIP, phantom unit awards outstanding include awards granted to employees of both CVR Partners and its general partner. Phantom unit awards made to employees of its general partner are considered non-employee equity based-awards. The phantom unit awards outstanding vest over a three-year period and are required to be remeasured each reporting period until they vest. The maximum number of common units issuable under the CVR Partners LTIP is 5,000,000. As of September 30, 2016, there were 4,820,215 common units available for issuance under the CVR Partners LTIP. As all phantom unit awards discussed below are cash settled awards, they do not reduce the number of common units available for issuance.

Certain Units and Phantom Units Awards

Awards of phantom units and distribution equivalent rights have been granted to employees of CVR Partners and its subsidiaries' employees and the employees of its general partner. These awards are generally graded-vesting awards, which are expected to vest over three years with one-third of the award vesting each year. Compensation expense is recognized on a straight-line basis over the vesting period of the respective tranche of the award. Each phantom unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average fair market value of one unit of the CVR Partners' common units in accordance with the award agreement, plus (ii) the per unit cash value of all distributions declared and paid by CVR Partners from the grant date to and including the vesting date. The awards, which are liability-classified, are remeasured at each subsequent reporting date until they vest.

In connection with the East Dubuque Merger as described in Note 3 ("Acquisition"), 195,980 phantom units were granted to certain CVR Nitrogen employees. A related liability of $0.6 million was recorded as part of the opening balance sheet and included in personnel accruals in the purchase price allocation in Note 3 ("Acquisition"). Subsequent to the East Dubuque Merger, 79,654 awards were subject to an accelerated vesting date and were paid in full resulting in the early recognition of $0.4 million as compensation expense in selling, general and administrative expenses (exclusive of depreciation and amortization) for the nine months ended September 30, 2016.

A summary of the phantom unit activity and changes under the CVR Partners LTIP during the nine months ended September 30, 2016 is presented below:

	Phantom Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2016	391,903	$ 8.71
Granted	199,455	8.07
Vested	(79,654)	8.08
Forfeited	(8,299)	8.72
Non-vested at September 30, 2016	503,405	$ 8.56

As of September 30, 2016, unrecognized compensation expense associated with the unvested phantom units was approximately $1.4 million and is expected to be recognized over a weighted-average period of 1 year. Compensation expense (benefit) recorded for the three months ended September 30, 2016 and 2015 related to the awards under the CVR Partners LTIP was approximately $0.2 million of benefit and $0.1 million of expense, respectively. Compensation expense recorded for the nine months ended September 30, 2016 and 2015 related to the awards under the CVR Partners LTIP was approximately $1.2 million and $1.1 million, respectively.

As of September 30, 2016 and December 31, 2015, CVR Partners had a liability of $1.8 million and $0.7 million, respectively, for cash settled non-vested phantom unit awards and associated distribution equivalent rights, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

Performance-Based Phantom Units

In May 2014, CVR Partners entered into a Phantom Unit Agreement with the Chief Executive Officer and President of its general partner that included performance-based phantom units and distribution equivalent rights. Compensation cost for these awards is being recognized over the performance cycles of May 1, 2014 to December 31, 2014, January 1, 2015 to December 31, 2015 and January 1, 2016 to December 31, 2016, as the services are provided. Each phantom unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average closing price of CVR Partners' common units in accordance with the agreement, multiplied by a performance factor that is based upon the level of CVR Partners' production of UAN, and (ii) the per unit cash value of all distributions declared and paid by CVR Partners from the grant date to and including the vesting date. Compensation expense for the three and nine months ended September 30, 2016 and 2015 related to the awards was nominal. Based on current estimates of performance thresholds for the remaining performance cycles, unrecognized compensation expense and the liability associated with the unvested phantom units as of September 30, 2016 was nominal.

Long-Term Incentive Plan – CVR Refining

CVR Refining has a long-term incentive plan ("CVR Refining LTIP") that provides for the grant of options, unit appreciation rights, restricted units, phantom units, unit awards, substitute awards, other-unit based awards, cash awards, performance awards, and distribution equivalent rights. The maximum number of common units issuable under the CVR Refining LTIP is 11,070,000. Individuals who are eligible to receive awards under the CVR Refining LTIP include (i) employees of the Refining Partnership and its subsidiaries, (ii) employees of the general partner, (iii) members of the board of directors of the general partner and (iv) certain employees, consultants and directors of CRLLC and CVR Energy who perform services for the benefit of the Refining Partnership.

Awards of phantom units and distribution equivalent rights have been granted to employees of the Refining Partnership and its subsidiaries, its general partner and certain employees of CRLLC and CVR Energy who perform services solely for the benefit of the Refining Partnership. The awards are generally graded-vesting awards, which are expected to vest over three years with one-third of the awards vesting each year. Compensation expense is recognized on a straight-line basis over the vesting period of the respective tranche of the award. Each phantom unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average fair-market value of one unit of the Refining Partnership's common units in accordance with the award agreement, plus (ii) the per unit cash value of all distributions declared and paid by the Refining Partnership from the grant date to and including the vesting date. The awards, which are liability-classified, are remeasured at each subsequent reporting date until they vest.

A summary of phantom unit activity and changes under the CVR Refining LTIP during the nine months ended September 30, 2016 is presented below:

	Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2016	511,591	$ 19.68
Granted	15,696	10.13
Vested	(873)	19.11
Forfeited	(26,403)	19.10
Non-vested at September 30, 2016	500,011	$ 19.42

As of September 30, 2016, there was approximately $2.0 million of total unrecognized compensation cost related to the awards under the CVR Refining LTIP to be recognized over a weighted-average period of one year. Total compensation expense recorded for the three months ended September 30, 2016 and 2015 related to the awards under the CVR Refining LTIP was approximately $0.9 million and $1.2 million, respectively. Total compensation expense recorded for the nine months ended September 30, 2016 and 2015 related to the awards under the CVR Refining LTIP was approximately $0.9 million and $3.2 million, respectively.

As of September 30, 2016 and December 31, 2015, the Refining Partnership had a liability of approximately $3.1 million and $2.3 million, respectively, for non-vested phantom unit awards and associated distribution equivalent rights, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

In December 2014, the Company granted an award of 227,927 incentive units in the form of stock appreciation rights ("SARs") to an executive of CVR Energy. In April 2015, the award granted was canceled and replaced by an award of notional units in the form of SARs by CVR Refining pursuant to the CVR Refining LTIP. The replacement award is structured on the same economic and other terms as the incentive unit award and did not result in a material impact. Each SAR vests over three years and entitles the executive to receive a cash payment in an amount equal to the excess of the fair market value of one unit of the Refining Partnership's common units for the first ten trading days in the month prior to vesting over the grant price of the SAR. The fair value will be adjusted to include all distributions declared and paid by the Refining Partnership during the vesting period. The fair value of each SAR is estimated at the end of each reporting period using the Black-Scholes option-pricing model. Assumptions utilized to value the award have been omitted due to immateriality of the award. Total compensation expense during the three and nine months ended September 30, 2016 and 2015 and the liability as of September 30, 2016 were not material.

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Incentive Unit Awards

The Company has granted awards of incentive units and distribution equivalent rights to certain employees of CRLLC, CVR Energy and CVR GP, LLC. The awards are generally graded vesting awards, which are expected to vest over three years with one-third of the award vesting each year. Compensation expense is recognized on a straight-line basis over the vesting period of the respective tranche of the award. Each incentive unit and distribution equivalent right represents the right to receive, upon vesting, a cash payment equal to (i) the average fair market value of one unit of the Refining Partnership's common units in accordance with the award agreement, plus (ii) the per unit cash value of all distributions declared and paid by the Refining Partnership from the grant date to and including the vesting date. The awards, which are liability-classified, are remeasured at each subsequent reporting date until they vest.

A summary of incentive unit activity and changes during the nine months ended September 30, 2016 is presented below:

	Incentive Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2016	604,942	$ 19.64
Granted	20,758	10.92
Vested	(2,451)	19.73
Forfeited	(38,399)	19.48
Non-vested at September 30, 2016	584,850	$ 19.34

As of September 30, 2016, there was approximately $2.3 million of total unrecognized compensation cost related to incentive unit awards to be recognized over a weighted-average period of approximately one year. Total compensation expense for the three months ended September 30, 2016 and 2015 related to the awards was approximately $1.0 million and $1.5 million, respectively. Total compensation expense for the nine months ended September 30, 2016 and 2015 related to the awards was approximately $1.1 million and $3.9 million, respectively.

As of September 30, 2016 and December 31, 2015, the Company had a liability of approximately $3.7 million and $2.6 million, respectively, for non-vested incentive units and associated distribution equivalent rights, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

(5) Inventories
Inventories consist primarily of domestic and foreign crude oil, blending stock and components, work-in-progress, fertilizer products, and refined fuels and by-products. For all periods presented, inventories are valued at the lower of the first-in, first-out ("FIFO") cost or market for fertilizer products, refined fuels and by-products. Refinery unfinished and finished products inventory values were determined using the ability-to-bear process, whereby raw materials and production costs are allocated to work-in-process and finished products based on their relative fair values. Other inventories, including other raw materials, spare parts, and supplies, 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, 2016	December 31, 2015

	(in millions)	
Finished goods	$140.9	$ 114.5
Raw materials and precious metals	96.0	81.2
In-process inventories	14.6	35.8
Parts and supplies	71.5	58.4
Total Inventories	$323.0	$ 289.9

(6) Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 30, 2016	December 31, 2015
	(in millions)	
Land and improvements	$46.4	$ 38.6
Buildings	64.8	53.6
Machinery and equipment	3,617.9	2,723.0
Automotive equipment	24.7	24.8
Furniture and fixtures	24.9	21.3
Leasehold improvements	3.6	3.6
Aircraft	3.6	3.6
Railcars	16.7	16.3
Construction in progress	68.3	122.3
	3,870.9	3,007.1
Accumulated depreciation	1,176.2	1,040.0
Total property, plant and equipment, net	$2,694.7	$ 1,967.1

Capitalized interest recognized as a reduction in interest expense for the three months ended September 30, 2016 and 2015 totaled approximately $1.6 million and $1.2 million, respectively. Capitalized interest recognized as a reduction in interest expense for the nine months ended September 30, 2016 and 2015 totaled approximately $5.0 million and $2.3 million, respectively. Land, buildings and equipment that are under a capital lease obligation had an original carrying value of approximately $24.8 million at both September 30, 2016 and December 31, 2015. Amortization of assets held under capital leases is included in depreciation expense.

(7) Goodwill

The Nitrogen Fertilizer Partnership evaluates the carrying value of goodwill annually as of November 1 and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. The Nitrogen Fertilizer Partnership's goodwill reporting unit is the Coffeyville Fertilizer Facility.

Based on a significant decline in market capitalization and lower cash flow forecasts resulting from weakened fertilizer pricing trends during the third quarter of 2016, the Nitrogen Fertilizer Partnership identified a triggering event and therefore performed an interim goodwill impairment test as of September 30, 2016. The goodwill impairment quantitative testing involves a two-step process. Step 1 compares the fair value of the reporting unit to its carrying value. The Coffeyville Fertilizer Facility reporting unit fair value is based upon consideration of various valuation methodologies, including guideline public company multiples and projected future cash flows discounted at rates commensurate with the risk involved. The carrying amount of the reporting unit was less than its fair value; therefore, a Step 2 test was not required to be completed and no impairment was recorded.

The fair value of the reporting unit exceeded its carrying value by approximately 17.0% based upon the results of the Step 1 test as of September 30, 2016. Judgments and assumptions are inherent in management’s estimates used to determine the fair value of the reporting unit. Assumptions used in the discounted cash flows ("DCF") require the exercise of significant judgment, including judgment about appropriate discount rates and terminal values, growth rates, and the amount and timing of expected future cash flows. The discount rates used in the DCF, which are intended to reflect the risks inherent in future cash flow projections, are based on estimates of the weighted-average cost of capital of a market participant. Such estimates are derived from analysis of peer companies and consider the industry weighted average return on debt and equity from a market participant perspective. The most significant assumption to determining the fair value of the reporting unit was forecasted fertilizer pricing. Changes in assumptions may result in a change in management's estimates and may result in an impairment in future periods, including, but not limited to, further declines in the forecasted fertilizer pricing.

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(8) Cost Classifications

Cost of product sold (exclusive of depreciation and amortization) includes cost of crude oil, other feedstocks, blendstocks, purchased refined products, pet coke expenses, renewable identification numbers ("RINs") expenses and freight and distribution expenses. Cost of product sold excludes depreciation and amortization of approximately $1.6 million and $1.5 million for the three months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, cost of product sold excludes depreciation and amortization of approximately $5.0 million and $5.1 million, respectively.

Direct operating expenses (exclusive of depreciation and amortization) include direct costs of labor, maintenance and services, energy and utility costs, property taxes, environmental compliance costs, as well as chemicals and catalysts and other direct operating expenses. Direct operating expenses exclude depreciation and amortization of approximately $46.5 million and $35.4 million for the three months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, direct operating expenses exclude depreciation and amortization of approximately $129.5 million and $112.7 million, respectively.

Selling, general and administrative expenses (exclusive of depreciation and amortization) consist primarily of legal expenses, treasury, accounting, marketing, human resources, information technology and maintaining the corporate and administrative offices in Texas and Kansas. Selling, general and administrative expenses exclude depreciation and amortization of approximately $2.0 million and $1.8 million for the three months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, selling, general and administrative expenses exclude depreciation and amortization of approximately $6.3 million and $5.4 million, respectively.

(9) Income Taxes

On May 19, 2012, CVR became a member of the consolidated federal tax group of AEPC, a wholly-owned subsidiary of IEP, and subsequently entered into a tax allocation agreement with AEPC (the "Tax Allocation Agreement"). The Tax Allocation Agreement provides that AEPC will pay all consolidated federal income taxes on behalf of the consolidated tax group. CVR is required to make payments to AEPC in an amount equal to the tax liability, if any, that it would have paid if it were to file as a consolidated group separate and apart from AEPC. As of September 30, 2016, the Company's Condensed Consolidated Balance Sheet reflected a receivable of $2.7 million which will be utilized to offset any future estimated federal tax payments due in accordance with the Tax Allocation Agreement. During the three months ended September 30, 2016 and 2015, the Company paid $15.0 million and $20.0 million, respectively, to AEPC under the Tax Allocation Agreement. During the nine months ended September 30, 2016 and 2015, the Company paid $15.0 million and $47.5 million, respectively, to AEPC under the Tax Allocation Agreement.

The Company recognizes liabilities, interest and penalties for potential tax issues based on its estimate of whether, and the extent to which, additional taxes may be due as determined under FASB ASC Topic 740 — Income Taxes. As of September 30, 2016, the Company had unrecognized tax benefits of approximately $44.1 million, of which $28.7 million, if recognized, would impact the Company’s effective tax rate. Approximately $25.9 million of unrecognized tax benefits were netted with deferred tax asset carryforwards. The remaining unrecognized tax benefits are included in other long-term liabilities in the Condensed Consolidated Balance Sheets. The Company has accrued interest of $7.4 million related to uncertain tax positions. The Company's accounting policy with respect to interest and penalties related to tax uncertainties is to classify these amounts as income taxes.

The Company's effective tax rate for the three and nine months ended September 30, 2016 was 55.6% and 13.3%, respectively, and the Company's effective tax rate for the three and nine months ended September 30, 2015 was 18.9% and 21.9%, respectively, as compared to the Company's combined federal and state expected statutory tax rate of 39.4% and 39.6% for each of the three and nine months ended September 30, 2016 and 2015, respectively. The Company's effective tax rate for the three and nine months ended September 30, 2016 and 2015 varies from the statutory rate primarily due to the reduction of income subject to tax associated with the noncontrolling ownership interests of CVR Refining's and CVR Partners' earnings (loss), as well as benefits for domestic production activities and state income tax credits. The effective tax rate for the three and nine months ended September 30, 2016 varies from the three and nine months ended September 30, 2015 due to the correlation between the amount of credits projected to be generated in each year in relative comparison with the projected pre-tax income (loss) for the respective periods and the expiration of the statute of limitations on previously unrecognized tax benefits in the first quarter of 2016.

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(10) Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2016	December 31, 2015
	(in millions)	
6.5% Senior Notes due 2022	$500.0	$ 500.0
9.25% Senior Notes due 2023	645.0	—
6.5% Notes due 2021	4.2	—
CRNF credit facility	—	125.0