CVR PARTNERS, LP
Form 10-Q
April 29, 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 March 31, 2016

OR

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

For the transition period from to .

Commission file number: 001-35120

CVR Partners, LP
(Exact name of registrant as specified in its charter)

Delaware	56-2677689
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2277 Plaza Drive, Suite 500	
Sugar Land, Texas	77479
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(Do not check if smaller reporting company.)

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

There were 113,282,973 common units outstanding at April 26, 2016.

CVR PARTNERS, LP AND SUBSIDIARIES

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For The Quarter Ended March 31, 2016

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GLOSSARY OF SELECTED TERMS

The following are definitions of certain terms used in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (this "Report"):

ammonia	Ammonia is a direct application fertilizer and is primarily used as a building block for other nitrogen products for industrial applications and finished fertilizer products.
capacity	Capacity is defined as the throughput a process unit is capable of sustaining, either on a calendar or stream day basis. The throughput may be expressed in terms of maximum sustainable, nameplate or economic capacity. The maximum sustainable or nameplate capacities may not be the most economical. The economic capacity is the throughput that generally provides the greatest economic benefit based on considerations such as feedstock costs, product values and downstream unit constraints.
catalyst	A substance that alters, accelerates, or instigates chemical changes, but is neither produced, consumed nor altered in the process.
Coffeyville Resources or CRLLC	Coffeyville Resources, LLC, the subsidiary of CVR Energy which directly owns our general partner and 38,920,000 common units.
common units	Common units representing limited partner interests of CVR Partners, LP.
corn belt	The primary corn producing region of the United States, which includes Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Ohio and Wisconsin.
CVR Energy	CVR Energy, Inc., a publicly traded company listed on the New York Stock Exchange under the ticker symbol "CVI," which indirectly owns our general partner and the common units owned by CRLLC.
CVR Refining	CVR Refining, LP, a publicly traded limited partnership listed on the New York Stock Exchange under the ticker symbol "CVRR," which currently owns and operates a complex full coking medium-sour crude oil refinery with a rated capacity of 115,000 barrels per calendar day (bpcd) in Coffeyville, Kansas, a complex crude oil refinery with a rated capacity of 70,000 bpcd in Wynnewood, Oklahoma and ancillary businesses.
farm belt	Refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.
feedstocks	Petroleum coke and petroleum products (such as crude oil and natural gas liquids) that are processed and blended into refined products, such as gasoline, diesel fuel and jet fuel, which are produced by a refinery.
general partner or CVR GP	CVR GP, LLC, our general partner, which is a wholly-owned subsidiary of CRLLC.
MMbtu	One million British thermal units: a measure of energy. One Btu of heat is required to raise the temperature of one pound of water one degree Fahrenheit.

MSCF	One thousand standard cubic feet, a customary gas measurement.
netback	Netback represents net sales less freight revenue divided by product sales volume in tons. Netback is also referred to as product pricing at gate.
on-stream	Measurement of the reliability of the gasification, ammonia and UAN units, defined as the total number of hours operated by each unit divided by the total number of hours in the reporting period.
pet coke	Petroleum coke - a coal-like substance that is produced during the oil refining process.
product pricing at gate	Product pricing at gate represents net sales less freight revenue divided by product sales volume in tons. Product pricing at gate is also referred to as netback.
throughput	The volume processed through a unit.
ton	One ton is equal to 2,000 pounds.

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turnaround	A periodically required standard procedure to refurbish and maintain a facility that involves the shutdown and inspection of major processing units.
UAN	UAN is an aqueous solution of urea and ammonium nitrate used as a fertilizer.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

See accompanying notes to the condensed consolidated financial statements.

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CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

See accompanying notes to the condensed consolidated financial statements.

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CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to the condensed consolidated financial statements.

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CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

	Common Units		General Partner Interest	Accumulated Other Comprehensive Income/(Loss)	Total
	Issued	Amount			
	(unaudited)				
	(in thousands, except unit data)				
Balance at December 31, 2015	73,128,269	$385,670	$ 1	$ (119)	$385,552
Cash distributions to common unitholders – Affiliates	—	(10,509)	—	—	(10,509)
Cash distributions to common unitholders – Non-affiliates	—	(9,236)	—	—	(9,236)
Net income	—	18,042	—	—	18,042
Other comprehensive income	—	—	—	119	119
Balance at March 31, 2016	73,128,269	$383,967	$ 1	$ —	$383,968

See accompanying notes to the condensed consolidated financial statements.

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CVR PARTNERS, LP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016

(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 subsidiaries, "CVR Energy") to own Coffeyville Resources Nitrogen Fertilizers, LLC ("CRNF"). CRNF is an independent producer and marketer of upgraded nitrogen fertilizer products sold in North America. CRNF operates a dual-train coke gasifier plant that produces high-purity hydrogen, most of which is subsequently converted to ammonia and upgraded to urea ammonium nitrate ("UAN").

CRNF produces and distributes nitrogen fertilizer products, which are used primarily by farmers to improve the yield and quality of their crops. CRNF's principal products are UAN and ammonia. These products are manufactured at CRNF's facility in Coffeyville, Kansas. CRNF's product sales are heavily weighted toward UAN and all of its products are sold on a wholesale basis.

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

East Dubuque Mergers

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

Management and Operations

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

The Partnership is operated by a combination of the general partner's senior management team and CVR Energy's senior management team pursuant to a services agreement among CVR Energy, CVR GP and the Partnership. The various rights and responsibilities of the Partnership's partners are set forth in the limited partnership agreement. The Partnership also is party to a number of agreements with CVR Energy and CVR GP to regulate certain business relations between the Partnership and the other parties thereto. See Note 14 ("Related Party Transactions") for further discussion.

(2) Basis of Presentation

The accompanying Partnership condensed consolidated financial statements include the accounts of CVR Partners and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The accompanying condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). These condensed consolidated financial statements should be read in conjunction with the December 31, 2015 audited consolidated financial statements and notes thereto included in CVR Partners' Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on February 18, 2016 (the "2015 Form 10-K").

The condensed consolidated financial statements include certain selling, general and administrative expenses and direct operating expenses that CVR Energy and its subsidiaries incurred on behalf of the Partnership. These related party transactions are governed by the services agreement. See Note 14 ("Related Party Transactions") for additional discussion of the services agreement and billing and allocation of certain costs.

In the opinion of the Partnership's management, the accompanying condensed consolidated financial statements and related notes reflect all adjustments (consisting only of normal recurring adjustments) that are necessary to fairly present the financial position of the Partnership as of March 31, 2016 and December 31, 2015, the results of operations and comprehensive income of the Partnership for the three months ended March 31, 2016 and 2015, the cash flows of the Partnership for the three months ended March 31, 2016 and 2015 and the changes in partners' capital for the Partnership for the three months ended March 31, 2016.

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

(3) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard was originally effective for interim and annual periods beginning after December 15, 2016 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. On July 9, 2015, the FASB approved a one-year deferral of the effective date making the standard effective for interim and annual periods beginning after December 15, 2017. The FASB will continue to permit entities to adopt the standard on the original effective date if they choose. The Partnership has not yet selected a transition method and is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The new standard requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. The standard is effective for interim and annual periods beginning after December 15, 2015 and is required to be applied on a retrospective basis. Early adoption was permitted. The Partnership adopted ASU 2015-03 as of January 1, 2016 and applied the standard retrospectively to the Condensed Consolidated Balance Sheet. Refer to Note 11 ("Credit Facility") for further details.

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

(4) Mergers

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

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

East Dubuque was required to sell or spin off its facility located in Pasadena, Texas (the "Pasadena Facility") as a condition to closing of the mergers. On March 14, 2016, East Dubuque completed the sale of 100% of the issued and outstanding membership interests of its subsidiary that owned the Pasadena Facility to a third party. Holders of common units representing limited partner

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

interests in East Dubuque ("East Dubuque common units") of record as of March 28, 2016 received consideration for the Pasadena Facility and may receive additional consideration in the future according to the terms of the purchase agreement. The Partnership will not receive any consideration relating to the sale of the Pasadena Facility.

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

Merger Consideration

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

Phantom units granted and outstanding under East Dubuque’s equity plans and held by an employee who will continue in the employment of a CVR Partners-affiliated entity upon closing of the mergers were canceled and replaced with new incentive awards of substantially equivalent value and on similar terms. Each phantom unit granted and outstanding and held by (i) an employee who did not continue in employment of a CVR Partners-affiliated entity, or (ii) a director of East Dubuque GP, upon closing of the mergers, vested in full and the holders thereof received the merger consideration.

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

A summary of the total purchase price is as follows:

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

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

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

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

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

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

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

Merger-Related Indebtedness

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

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

Expenses Associated with the Mergers

During the three months ended March 31, 2016, the Partnership incurred $1.2 million of legal and other professional fees and other merger related expenses, which were included in selling, general and administrative expenses (exclusive of depreciation and amortization).

(5) Share Based Compensation

Certain employees of CVR Partners and employees of CVR Energy who perform services for the Partnership under the services agreement with CVR Energy participate in equity compensation plans of CVR Partners' affiliates. Accordingly, CVR Partners has recorded compensation expense for these plans. All compensation expense related to these plans for full-time employees of CVR Partners has been allocated 100% to the Partnership. For employees of CVR Energy, the Partnership records share-based compensation relative to the percentage of time spent by each employee providing services to the Partnership as compared to the total calculated share-based compensation by CVR Energy. The Partnership is not responsible for payment of the allocated share-based compensation for certain plans. Allocated expense amounts related to plans for which the Partnership is not responsible for payment are immaterial and are reflected as an increase or decrease to partners' capital.

Long-Term Incentive Plan – CVR Energy

CVR Energy has a Long-Term Incentive Plan ("CVR Energy LTIP") that permits the grant of options, stock appreciation rights, restricted shares, restricted stock units, dividend equivalent rights, share awards and performance awards (including performance share units, performance units and performance based restricted stock). As of March 31, 2016, performance units and an immaterial amount of restricted stock units remain outstanding under the CVR Energy LTIP. Individuals who are eligible to receive awards and grants under the CVR Energy LTIP include CVR Energy’s or its subsidiaries’ (including the Partnership) employees, officers, consultants and directors.

Performance Unit Awards

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

Incentive Unit Awards – CVR Energy

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

Assuming the allocation of costs from CVR Energy remains consistent with the allocation percentages in place at March 31, 2016, there was approximately $0.9 million of total unrecognized compensation cost related to the incentive units and associated distribution equivalent rights to be recognized over a weighted-average period of approximately 1.5 years. Inclusion of a vesting table would not be meaningful due to changes in allocation percentages that may occur from time to time. The unrecognized compensation expense has been determined by the number of incentive units and respective allocation percentage for individuals for whom, as of March 31, 2016, compensation expense has been allocated to the Partnership. Compensation expense recorded for the three months ended March 31, 2016 related to the awards was nominal. Compensation expense recorded for the three months ended March 31, 2015 related to the awards was approximately $0.2 million. The Partnership will be responsible for reimbursing CVR Energy for its allocated portion of the awards.

As of both March 31, 2016 and December 31, 2015, the Partnership had a liability of $0.5 million for its allocated portion of non-vested incentive units and associated distribution equivalent rights, which is recorded in accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheets.

Long-Term Incentive Plan – CVR Partners

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

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

Certain Units and Phantom Units Awards

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

A summary of the phantom unit activity during the three months ended March 31, 2016 is presented below:

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

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

Compensation expense recorded for the three months ended March 31, 2016 and 2015 related to the awards under the CVR Partners LTIP was approximately $0.5 million and $0.6 million, respectively. Compensation expense related to the awards to employees of the Partnership and its subsidiaries under the CVR Partners LTIP has been recorded in selling, general and administrative expenses (exclusive of depreciation and amortization) - third parties and direct operating expenses (exclusive of depreciation and amortization) - third parties. Compensation expense related to the awards issued to employees of the general partner under the CVR Partners LTIP has been recorded in selling, general and administrative expenses (exclusive of depreciation and amortization) - affiliates and direct operating expenses (exclusive of depreciation and amortization) - affiliates. As of March 31, 2016 and December 31, 2015 the Partnership had a liability of $1.2 million and $0.7 million, respectively, for cash settled non-vested phantom unit awards and associated distribution equivalent rights, which is recorded in personnel accruals on the Condensed Consolidated Balance Sheets.

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Performance-Based Phantom Unit Award

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

(6) Inventories

Inventories consisted of the following:

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

(7) Property, Plant and Equipment

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

	March 31, 2016	December 31, 2015
	(in thousands)	
Land and improvements	$5,441	$ 5,441
Buildings and improvements	3,235	3,049
Machinery and equipment	575,636	574,326
Automotive equipment	483	448
Furniture and fixtures	869	918
Railcars	16,315	16,315
Construction in progress	1,575	1,641
	$603,554	$ 602,138
Less: Accumulated depreciation	215,919	209,005
Total property, plant and equipment, net	$387,635	$ 393,133

Capitalized interest recognized as a reduction of interest expense was $0 for the three months ended March 31, 2016 and 2015.

Direct operating expenses excluded depreciation and amortization of approximately $6.8 million and $6.6 million for the three months ended March 31, 2016 and 2015, respectively.

Cost of product sold expenses excluded depreciation and amortization of approximately $0.2 million and $0.2 million for the three months ended March 31, 2016 and 2015, respectively.

Depreciation and amortization excluded from selling, general and administrative expenses was nominal for the three months ended March 31, 2016 and 2015.

(8) 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.

As of March 31, 2016, the Partnership had a total of 73,128,269 common units issued and outstanding, of which 38,920,000 common units were owned by CRLLC, representing approximately 53% of the total Partnership common units outstanding. As of April 26, 2016, the Partnership had a total of 113,282,973 common units issued and outstanding, of which 38,920,000 common units were owned by CRLLC, representing approximately 34% of the total Partnership common units outstanding.

The board of directors of the Partnership's general partner has 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 begins with Adjusted EBITDA reduced for cash needed for (i) net cash interest expense (excluding capitalized interest) and debt service and other contractual obligations; (ii) maintenance capital expenditures; and (iii) to the extent applicable, major scheduled turnaround expenses, reserves for future operating or capital needs that the board of directors of the general partner deems necessary or appropriate, and expenses associated with the East Dubuque mergers, if any. Adjusted EBITDA is defined as EBITDA (net income before interest expense, net, income tax expenses, depreciation and amortization) further adjusted for the impact of non-cash share-based compensation, and, when applicable, major scheduled turnaround expense, loss on disposition of assets and expenses associated with the East Dubuque mergers. Available cash for distribution may be increased by the release of previously established cash reserves, if any, at the discretion of the board of directors of the general partner. Actual distributions are set by the board of directors of the general partner. The board of directors of the general partner may modify the cash distribution policy at any time, and the partnership agreement does not require the board of directors of the general partner to make distributions at all.

On March 7, 2016, the Partnership paid a cash distribution to the Partnership's unitholders of record on the close of business on February 29, 2016 for the fourth quarter of 2015 in the amount of $0.27 per common unit, or $19.7 million in aggregate.

See Note 16 ("Subsequent Events") for further information on the Partnership's first quarter of 2016 distribution.

(9) 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 certain 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.

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(10) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

	As of March 31, 2016	As of December 31, 2015
	(in thousands)	
Property taxes	$1,764	$ 1,371
Current interest rate swap liabilities	—	119
Accrued interest	307	458
Railcar maintenance accruals	325	209
Affiliates (1)	919	2,334
Other accrued expenses and liabilities	1,461	1,192
	$4,776	$ 5,683

(1) Accrued expenses and other current liabilities include amounts owed by the Partnership to CVR Energy and its subsidiaries, which are related parties, under the feedstock and shared services agreement and the services agreement. Refer to Note 14 ("Related Party Transactions") for additional discussion.

(11) Credit Facility

On April 13, 2011, CRNF, as borrower, and CVR Partners, as guarantor, entered into a new credit facility with a group of lenders including Goldman Sachs Lending Partners LLC, as administrative and collateral agent (the "Credit Agreement"). The Partnership's 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 March 31, 2016 and December 31, 2015. There is no scheduled amortization. The credit facility was scheduled to mature on April 13, 2016, but as described below, was prepaid in full and terminated. The principal portion of the term loan is presented as long-term debt on the Condensed Consolidated Balance Sheet as of March 31, 2016 as the Partnership had the intent and ability to refinance the obligation on a long-term basis, as discussed in Note 16 ("Subsequent Events").

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. During the periods presented, the interest rate was either the Eurodollar rate plus a margin of 3.50% or, for base rate loans, the prime rate plus 2.50%. At March 31, 2016, the effective rate of the term loan facility was approximately 3.98%. 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.

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The Partnership previously incurred debt issuance costs associated with the term loan facility. As discussed in Note 3 ("Recent Accounting Pronouncements"), the Partnership adopted ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. As a result of adoption of the standard, debt issuance costs were reclassified as a direct deduction from the carrying value of the related debt balances in the Condensed Consolidated Balance Sheets. Debt issuance costs related to the revolving credit facility continue to be presented as assets in the Condensed Consolidated Balance Sheets. A summary of the carrying value of long-term debt in the Condensed Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015 is as follows:

	As of March 31, 2016	As of December 31, 2015
	(in thousands)	
Term loan facility	$125,000	$125,000
Less: Deferred financing fees	26	227
Long-term debt, net of current portion	$124,974	$124,773

As discussed in Note 16 ("Subsequent Events"), subsequent to March 31, 2016, the Partnership repaid all amounts outstanding under the Credit Agreement and the Credit Agreement was terminated.

(12) Interest Rate Swap Agreements

CRNF had 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 expired on February 12, 2016. The floating rate term debt is discussed in Note 11 ("Credit Facility"). The aggregate notional amount covered under these agreements, which commenced on August 12, 2011, totals $62.5 million (split evenly between the two agreements). Under the terms of the interest rate swap agreement entered into on June 30, 2011, CRNF received a floating rate based on three-month LIBOR and paid 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 paid a fixed rate of 1.975%. Both swap agreements were settled every 90 days. The effect of these swap agreements was to lock in a fixed rate of interest of approximately 1.96% plus the applicable margin paid to lenders over three-month LIBOR governed by the credit facility. The agreements were designated as cash flow hedges at inception, and accordingly, the effective portion of the gain or loss on the swap was reported as a component of accumulated other comprehensive income ("AOCI") and reclassified into interest expense when the interest rate swap transaction affects earnings. Any ineffective portion of the gain or loss was recognized immediately in 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 $0.1 million and $0.3 million for the three months ended March 31, 2016 and 2015, respectively.

The interest rate swap agreements previously held by the Partnership also provided for the right to offset. However, as the interest rate swaps were in a liability position, there are no amounts offset in the Condensed Consolidated Balance Sheet as of December 31, 2015. See Note 15 ("Fair Value Measurements") for discussion of the fair value of the interest rate swap agreements.

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(13) 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
	(in thousands)	
Nine months ending December 31, 2016	$3,616	$ 14,908
Year Ending December 31,		
2017	3,307	14,640
2018	2,496	13,172
2019	1,897	11,452
2020	1,403	9,073
Thereafter	2,257	54,415
	$14,976	$ 117,660

CRNF leases railcars and facilities under long-term operating leases. Lease expense included in cost of product sold (exclusive of depreciation and amortization) and for the three months ended March 31, 2016 and 2015 totaled approximately $1.2 million and $1.1 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 may be renewed or replaced as they expire.

The Partnership’s purchase obligation for pet coke from CVR Refining and has been derived from a calculation of the average pet coke price paid to CVR Refining over the preceding two year period. See Note 14 ("Related Party Transactions") for further discussion of the coke supply agreement.

CRNF is party to 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 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 March 31, 2016 and 2015, totaled approximately $1.0 million and $0.8 million, respectively.

The Partnership is a party to a pet coke supply agreement with HollyFrontier Corporation. The term of this agreement ends in December 2016. The delivered cost of this pet coke is included in cost of product sold (exclusive of depreciation and amortization) and totaled approximately $1.4 million and $1.3 million, respectively, for the three months ended March 31, 2016 and 2015.

Litigation

From time to time, the Partnership is involved in various lawsuits arising in the normal course of business, including environmental, health and safety ("EHS") matters described below under "Environmental, Health and Safety Matters." Liabilities, if any, related to such litigation are recognized when the related costs are probable and can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. 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. There were no new proceedings or material developments in proceedings from those provided in the 2015 Form 10-K, which was filed with the SEC on February 18, 2016. In the opinion of management, the ultimate resolution of any other litigation matters is not expected to have a material adverse effect on the accompanying condensed consolidated financial statements. There can be no assurance that management’s beliefs or opinions with respect to liability for potential litigation matters are accurate.

Environmental, Health and Safety 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 laws or technology occur.

There have been no new developments or material changes to the environmental accruals or expected capital expenditures related to compliance with the foregoing environmental matters from those provided in the 2015 Form 10-K. CRNF believes it is in substantial compliance with existing EHS rules and regulations. There can be no assurance that the EHS matters which may develop in the future will not have a material adverse effect on the Partnership's business, financial condition or results of operations.

(14) Related Party Transactions

Related Party Agreements

CVR Partners is party to, or otherwise subject to certain agreements with CVR Energy and its subsidiaries (including CVR Refining and its subsidiary Coffeyville Resources Refining & Marketing, LLC ("CRRM")) that govern the business relations among each party including: the (i) Feedstock and Shared Services Agreement; (ii) Coke Supply Agreement; (iii) Environmental Agreement; (iv) Services Agreement; (v) GP Services Agreement and (vi) Limited Partnership Agreement. The agreements are described as in effect at March 31, 2016. Except as otherwise described below, there have been no new developments or material changes to these agreements from those provided in the 2015 Form 10-K.

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, personnel accruals and accrued expenses and other current liabilities on the Partnership's Condensed Consolidated Balance Sheets.

Feedstock and Shared Services Agreement

CRNF is party to 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 agreed to transfer hydrogen to one another; provided, CRNF is not required to sell hydrogen to CRRM if such hydrogen is required for operation of CRNF's nitrogen fertilizer plant, if such sale would adversely affect the Partnership's classification as a partnership for federal income tax purposes, or if such sale would not be in CRNF's best interest. Net monthly sales of hydrogen to CRRM have been reflected as net sales for CVR Partners, when applicable. Net monthly receipts of hydrogen from CRRM have been reflected in cost of product sold (exclusive of depreciation and amortization) for CVR Partners, when applicable. For the three months ended March 31, 2016 and 2015, the net sales generated from the sale of hydrogen to CRRM were approximately $1.1 million and $6.5 million, respectively. At March 31, 2016, there was a nominal amount included in accounts payable on the Condensed Consolidated Balance Sheets associated with unpaid balances related to hydrogen sales. At December 31, 2015, there was approximately $0.5 million of receivables included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets associated with unpaid balances related to hydrogen sales.

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 March 31, 2016 was $0. Reimbursed direct operating expenses associated with nitrogen for the three months ended March 31, 2015 was nominal.

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 March 31, 2016 and 2015, the net sales generated from the sale of tail gas to CRRM were nominal. In April 2011, in connection with the tail gas stream transfers to CRRM, 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 and provide an additional 15% to cover the cost of capital, which was due from CRNF to CRRM over four years. At March 31, 2016 and December 31, 2015, there were assets of approximately $0.2 million and $0.2 million, respectively, included in prepaid expenses and other current assets and approximately $0.7 million and $0.8 million, respectively, included in other long-term assets in the Condensed Consolidated Balance Sheets.

At March 31, 2016 and December 31, 2015, receivables of nominal amounts and $0.2 million, respectively, were included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets for amounts yet to be received related to components of the feedstock and shared services agreement, other than amounts related to hydrogen transfers and tail gas discussed above. At March 31, 2016 and December 31, 2015, current obligations of approximately $0.6 million and $0.7 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.

Coke Supply Agreement

CRNF is party to 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 (the "UAN-based price") or 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 that excludes transportation cost ("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 cost of pet coke associated with the transfer of pet coke from CRRM to CRNF were approximately $0.7 million and $1.8 million for the three months ended March 31, 2016 and 2015, respectively, which was recorded in cost of product sold (exclusive of depreciation and amortization). Payables of $0.1 million and $0.3 million related to the coke supply agreement were included in accounts payable on the Condensed Consolidated Balance Sheets at March 31, 2016 and December 31, 2015, respectively.

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.

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Net amounts incurred under the services agreement for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Direct operating expenses (exclusive of depreciation and amortization) — Affiliates	$665	$890
Selling, general and administrative expenses (exclusive of depreciation and amortization) — Affiliates	2,563	2,384
Total	$3,228	$3,274

For services performed in connection with the services agreement, the Partnership recognized personnel costs, excluding amounts related to share-based compensation that are disclosed in Note 5 ("Share Based Compensation"), of $1.4 million and $1.1 million, respectively, for the three months ended March 31, 2016 and 2015. At March 31, 2016 and December 31, 2015, current obligations of $1.8 million and $3.2 million, respectively, were included in accounts payable and accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheets with respect to amounts billed in accordance with the services agreement.

Limited Partnership Agreement

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 March 31, 2016 and 2015 approximately $1.1 million and $1.1 million, respectively, pursuant to the partnership agreement primarily for personnel costs related to the compensation of executives at the general partner, who manage the Partnership's business. At March 31, 2016 and December 31, 2015, current obligations of $1.2 million and $2.0 million, respectively, were included in personnel accruals on the Condensed Consolidated Balance Sheets related to amounts outstanding in accordance with the limited partnership agreement.

Insight Portfolio Group

Insight Portfolio Group LLC ("Insight Portfolio Group") is an entity formed by Mr. Carl C. 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. For the three months ended March 31, 2016, the Partnership paid Insight Portfolio Group approximately $0.1 million. For the three months ended March 31, 2015, the Partnership paid Insight Portfolio Group a nominal amount. At March 31, 2016 and December 31, 2015, there were no unpaid balances related to transactions with the Insight Portfolio Group.

Commitment Letter

Simultaneously with the execution of the Merger Agreement, CVR Partners entered into a commitment letter (the "Commitment Letter") with CRLLC, pursuant to which CRLLC has committed to, on the terms and subject to the conditions set forth in the Commitment Letter, make available to CVR Partners term loan financing of up to $150.0 million, which amounts would be available solely to fund the repayment of all of the loans outstanding under the Wells Fargo Credit Agreement, the cash consideration and expenses associated with the mergers. The term loan facility, if drawn, would have a one year term and would bear interest at a rate of three-month LIBOR plus 3.0% per annum. Calculation of interest would be on the basis of the actual number of days elapsed over a 360-day year.

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(unaudited)

CRLLC Guaranty

On February 9, 2016, CRLLC and the Partnership entered into a guaranty (the "CRLLC Guaranty"), pursuant to which CRLLC agreed to guaranty the indebtedness outstanding under the Credit Agreement. If the credit facility became due prior to a refinancing by the Partnership, CRLLC would be required to pay the indebtedness pursuant to the guaranty. The Partnership's obligation to repay CRLLC for the indebtedness would be pursuant to a promissory note (the "Note"). The terms of the Note would be mutually agreed upon by the parties, provided, the term would be the lesser of two years or such time that the Partnership obtains third-party financing ("New Debt") of at least $125.0 million on terms acceptable to the Partnership with a term of greater than one year from the inception of the New Debt.

Related Party Subsequent Events

See Note 16 ("Subsequent Events") for discussion of related party transactions, including termination of the Commitment Letter and CRLLC Guaranty, subsequent to March 31, 2016.

(15) 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).

There were no assets or liabilities measured at fair value on a recurring basis as of March 31, 2016. The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, as of December 31, 2015.

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Financial Statement Caption and Description				
Other current liabilities (interest rate swaps)	$ —	$ 119	$ —	$ 119

The carrying value of the Partnership’s debt approximates fair value. The Partnership had interest rate swaps that were measured at fair value on a recurring basis using Level 2 inputs. The swaps expired in February 2016. See further discussion in Note 12 ("Interest Rate Swap Agreements"). The fair values of these interest rate swap instruments were based on discounted cash flow models that incorporated the cash flows of the derivatives, as well as the current LIBOR rate and a forward LIBOR curve, along with other observable market inputs.

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(16) Subsequent Events

Distribution

On April 27, 2016, the Board of Directors of the general partner of the Partnership declared a cash distribution for the first quarter of 2016 in the amount of $0.27 per common unit, or approximately $30.6 million in aggregate. The cash distribution will be paid on May 16, 2016 to the Partnership's unitholders of record at the close of business on May 9, 2016.

Mergers

See Note 4 ("Mergers") for discussion of the mergers with East Dubuque and East Dubuque GP, completed on April 1, 2016.

CRLLC Facility

On April 1, 2016, in connection with the closing of the mergers, the Partnership entered into a $300.0 million senior term loan credit facility (the "CRLLC Facility") with CRLLC, as the lender, the proceeds of which were used by the Partnership (i) to fund the repayment of amounts outstanding under the Wells Fargo Credit Agreement discussed in Note 4 ("Mergers") (ii) to pay the cash consideration and to pay fees and expenses in connection with the mergers and related transactions and (iii) to repay all of the loans outstanding under the Credit Agreement discussed in Note 11 ("Credit Facility"). The CRLLC Facility has a term of two years and bears an interest rate of 12.0% per annum. Interest is calculated on the basis of the actual number of days elapsed over a 360-day year and payable quarterly. The Partnership may voluntarily prepay in whole or in part the borrowings under the CRLLC Facility without premium or penalty. In April 2016, the Partnership borrowed $300.0 million under the CRLLC Facility.

In connection with the CRLLC Facility, the Commitment Letter and the CRLLC Guaranty discussed in Note 14 ("Related Party Transactions") were terminated.

AEPC Facility

On April 1, 2016, in connection with the closing of the mergers, the Partnership entered into a new $320.0 million senior term loan facility (the "AEPC Facility") with American Entertainment Properties Corp., a Delaware corporation and an affiliate of the Partnership ("AEPC"), as the lender, which (i) may be used by the Partnership to provide funds to East Dubuque to make a change of control offer and, if applicable, a "clean-up" redemption in accordance with the indenture governing the Second Lien Notes or (ii) may be used by the Partnership or East Dubuque to make a tender offer for the Second Lien Notes and, in each case, pay fees and expenses related thereto. The AEPC Facility is for a term of two years and bears interest at a rate of 12% per annum. Interest shall be calculated on the basis of the actual number of days elapsed over a 360-day year and payable quarterly. The Partnership may voluntarily prepay in whole or in part the borrowings under the AEPC Facility without premium or penalty.

Credit Agreement

On April 1, 2016, in connection with the completion of the mergers, the Partnership repaid all amounts outstanding under the Credit Agreement. Effective upon such repayment, the Credit Agreement and all related loan documents and security interests were terminated and released. The Credit Agreement is discussed further in Note 11 ("Credit Facility"). The repayment was funded from amounts drawn on the CRLLC Facility, as discussed above.

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

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the unaudited condensed consolidated financial statements and related notes and with the statistical information and financial data appearing in this Report, as well as the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission ("SEC") on February 18, 2016 (the "2015 Form 10-K"). Results of operations and cash flows for the three months ended March 31, 2016 and 2015 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, including statements concerning contemplated transactions and strategic plans, expectations and objectives for future operations. Forward-looking statements 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 or operational performance, future distributions, future capital sources and capital expenditures; 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 2015 Form 10-K as well as the risk factors disclosed under "Risk Factors" in Part II Item 1.A. of this Report. 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;
- our reliance on the natural gas and electricity that we purchase from third parties;
- the supply and price levels of essential raw materials;
- the risk of a material decline in production at our nitrogen fertilizer plants;
- potential operating hazards from accidents, fire, severe weather, floods or other natural disasters;

- competition in the nitrogen fertilizer businesses;
- 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;
- the risk of security breaches;
- our lack of asset diversification;
- our dependence on significant customers;
- the potential loss of our transportation cost advantage over our competitors;
- our partial dependence on customer and distributor transportation of purchased goods;
- 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;
- the risk of labor disputes and adverse employee relations;
- 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;
- instability and volatility in the capital and credit markets;
- risks, contingencies and uncertainties associated with the announced mergers;
- our ability to complete the successful integration of the announced mergers into our business and to realize the synergies from such mergers; and

- CVR Energy and its affiliates may compete with us following consummation of the announced mergers.

All forward-looking statements contained in this Report speak only as of the date of this Report. 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, except to the extent required by law.

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Partnership Overview

CVR Partners, LP ("CVR Partners," the "Partnership," "we," "us" or "our" is 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 Coffeyville nitrogen fertilizer manufacturing facility ("Coffeyville Facility") is the only operation in North America that utilizes a petroleum coke, or pet coke, gasification process to produce nitrogen fertilizer.

As a result of the mergers, we also now own a facility located in East Dubuque, Illinois ("East Dubuque Facility"), which produces primarily ammonia and UAN using natural gas as the facility's primary feedstock. For a discussion of the mergers, refer to "Recent Developments" below in Part I. Item 2 of this Report and Note 4 ("Mergers") of Part I. Item 1 of this Report. The mergers occurred on April 1, 2016, and as such, the results of operations and cash flows for the three months ended March 31, 2016 and 2015 discussed herein do not include the results of East Dubuque.

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. Our product sales are heavily weighted toward UAN and all of our products are sold on a wholesale basis.

Our Coffeyville Facility includes a 1,300 ton-per-day ammonia unit, a 3,000 ton-per-day UAN unit, and a gasifier complex having a capacity of 89 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. Subsequent to the completion of the UAN expansion in February 2013, we now upgrade substantially all of the ammonia we produce at our Coffeyville Facility to higher margin UAN fertilizer, an aqueous solution of urea and ammonium nitrate which has historically commanded a premium price over ammonia. In 2015, we produced 928.6 thousand tons of UAN and 385.4 thousand tons of ammonia. Approximately 96% of our produced ammonia tons and the majority of the purchased ammonia tons were upgraded into UAN in 2015. For the three months ended March 31, 2016 and 2015, we produced 248.2 thousand tons and 252.1 thousand tons of UAN, respectively, and we produced 113.7 thousand tons and 96.0 thousand tons of ammonia, respectively. For the three months ended March 31, 2016 and 2015, approximately 89% and 98%, respectively, of our produced ammonia tons and the majority of purchased ammonia tons were upgraded into UAN.

CVR Energy, which indirectly owns our general partner and approximately 34% of our outstanding common units, also indirectly owns the general partner and approximately 66% of the outstanding common units of CVR Refining at April 26, 2016. CVR Refining owns and operates a complex full coking medium-sour crude oil refinery with a rated capacity of 115,000 barrels per calendar day (bpcd) in Coffeyville, Kansas, a complex crude oil refinery with a rated capacity of 70,000 bpcd in Wynnewood, Oklahoma and ancillary businesses.

We intend to 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.

The primary raw material feedstock utilized in our Coffeyville Facility's 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. Our Coffeyville Facility's pet coke gasification process results in a significantly higher percentage of fixed costs than a natural gas-based fertilizer plant. We currently purchase most of the pet coke for our Coffeyville Facility 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 Coffeyville Facility was produced and supplied by CVR Refining’s Coffeyville, Kansas crude oil refinery.

Recent Developments

On April 1, 2016, the Partnership completed the previously announced transactions (the "mergers") contemplated by the Agreement and Plan of Merger, dated as of August 9, 2015 (the "Merger Agreement"), with East Dubuque Nitrogen GP, LLC (formerly known as Rentech Nitrogen GP, LLC) ("East Dubuque GP") and East Dubuque Nitrogen Partners, L.P. (formerly known as Rentech Nitrogen Partners L.P.) ("East Dubuque"). Refer to Note 4 ("Mergers") of Part I. Item 1 of this Report for further discussion of the mergers.

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. Natural gas is the most significant raw material required in our competitors' production of nitrogen fertilizer. Our Coffeyville Facility does not use natural gas as a feedstock and uses a minimal amount of natural gas as an energy source in our operations. Instead, CVR Refining's adjacent refinery supplies us with most of the pet coke feedstock we need pursuant to a 20-year 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, 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 order to assess our operating performance, we calculate the product pricing at gate as an input to determine our operating margin. Product pricing at gate represents net sales less freight revenue divided by product sales volume in tons. We believe product pricing at gate is a meaningful measure because we sell products at our plant gate and terminal locations' gates ("sold gate") and delivered to the customer's designated delivery site ("sold delivered"). The relative percentage of sold gate versus sold delivered can change period to period. The product pricing at gate provides a measure that is consistently comparable period to period.

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; therefore we are able to cost-effectively sell substantially all of our products in the higher margin agricultural market. Further, we believe a significant portion of our competitors' revenues are derived from the lower margin industrial market. Our products leave our Coffeyville Facility either in railcars for destinations located principally on the Union Pacific Railroad or in trucks for direct shipment to customers. We do not currently incur significant intermediate transfer, storage, barge freight or pipeline freight charges; however, we do incur costs to maintain and repair our railcar fleet. Selling products to customers within economic rail transportation limits of the Coffeyville Facility and keeping transportation costs low are keys to maintaining profitability.

The high fixed cost of our direct operating expense structure also directly affects our profitability. Our Coffeyville 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 of our Coffeyville Facility include a large portion of electrical energy, employee labor, maintenance, including contract labor and outside services. We estimate these fixed costs averaged approximately 80% of direct operating expenses over the 24 months ended March 31, 2016.

Our largest raw material expense used in the production of ammonia at our Coffeyville Facility is pet coke, which we purchase from CVR Refining and third parties. For the three months ended March 31, 2016 and 2015, we incurred approximately $2.1 million and $3.6 million, respectively, for the cost of pet coke, which equaled an average cost per ton of $17 and $29, respectively.

Consistent, safe and reliable operations at our nitrogen fertilizer plants are critical to our financial performance and results of operations. Unplanned downtime 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 Coffeyville Facility has undergone a full facility turnaround every two to three years. Turnarounds at the Coffeyville Facility are expected to last 14-21 days. The Coffeyville fertilizer plant underwent a full facility turnaround in the third quarter of 2015, at a cost of approximately $7.0 million. The Partnership is planning to undergo the next scheduled full facility turnaround at Coffeyville in the second half of 2017.

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Historically, the East Dubuque Facility has also undergone a full facility turnaround every two to three years. The East Dubuque Facility is planning to undergo the next scheduled full facility turnaround in the second quarter of 2016. The turnaround is expected to last between 25-30 days. Expenses associated with the East Dubuque turnaround are estimated to be between $5.0 million to $7.0 million. The lost production during the downtime is expected to result in reduced sales and reduced variable expenses for the East Dubuque Facility during 2016.

Agreements with CVR Energy and CVR Refining

We are party to several agreements with CVR Energy and its affiliates that govern the business relations among us, CVR Energy and its subsidiaries (including CVR Refining), and our general partner. These include the pet coke supply agreement under which we buy the pet coke we use in our Coffeyville Facility; a services agreement, under which CVR Energy and its subsidiaries provide us with management services including the services of its senior management team; a feedstock and shared services agreement, which governs the provision of feedstocks for our Coffeyville Facility, including, but not limited to, hydrogen, high-pressure steam, nitrogen, instrument air, oxygen and natural gas; a raw water and facilities sharing agreement, which allocates raw water resources between the two businesses; an easement agreement; an environmental agreement; a lease agreement pursuant to which we lease office space and laboratory space; and certain financing agreements that we entered into in connection with the mergers. These agreements were not the result of arm's-length negotiations and the terms of these agreements are not necessarily as favorable to the parties to these agreements as terms which could have been obtained from unaffiliated third parties. See Note 14 ("Related Party Transactions") and Note 16 ("Subsequent Events") to Part I, Item 1 of this Report for additional discussion of the agreements.

Results of Operations

The period to period comparisons of our results of operations have been prepared using the historical periods included in our condensed consolidated financial statements. In order to effectively review and assess our historical financial information below, we have also included supplemental operating measures and industry measures that we believe are material to understanding our business.

To supplement our actual results calculated in accordance with GAAP for the applicable periods, the Partnership also uses certain non-GAAP financial measures, which are reconciled to our GAAP-based results below. These non-GAAP financial measures should not be considered as an alternative to GAAP results.

The following tables summarize the financial data and key operating statistics for CVR Partners and our operating subsidiary for the three months ended March 31, 2016 and 2015. 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, 2015, is unaudited.

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	Three Months Ended March 31, 2016	2015
	(in millions)	
Consolidated Statements of Operations Data:		
Net sales	$73.1	$93.1
Cost of product sold – Affiliates (1)	0.8	1.8
Cost of product sold – Third parties (1)	15.5	24.0
	16.3	25.8
Direct operating expenses – Affiliates (1) (2)	0.9	1.0
Direct operating expenses – Third parties (1)	22.8	23.4
	23.7	24.4
Selling, general and administrative expenses – Affiliates (1) (2) (3)	3.5	3.3
Selling, general and administrative expenses – Third parties (1) (3)	2.9	1.3
	6.4	4.6
Depreciation and amortization	7.0	6.8
Operating income	19.7	31.5
Interest expense and other financing costs	(1.7)	(1.7)
Interest income	—	—
Other income, net	—	—
Total other income (expense)	(1.7)	(1.7)
Income before income tax expense	18.0	29.8
Income tax expense	—	—
Net income	$18.0	$29.8
EBITDA (4)	$26.7	$38.3
Adjusted EBITDA (4)	$27.9	$38.4
Available cash for distribution (5)	$30.6	$32.6
Reconciliation to net sales:		
Sales net at gate	$64.8	$79.2
Freight in revenue	6.9	7.0
Hydrogen revenue	1.1	6.5
Other	0.3	0.4
Total net sales	$73.1	$93.1

	As of March 31, 2016	As of December 31, 2015
		(audited)
	(in millions)	
Balance Sheet Data:		
Cash and cash equivalents	$52.0	$ 50.0

Working capital	76.5	72.7
Total assets	529.2	536.3
Total debt	125.0	124.8
Total partners’ capital	384.0	385.6

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	Three Months Ended March 31, 2016	2015
	(in millions)	
Cash Flow Data:		
Net cash flow provided by (used in):		
Operating activities	$23.6	$25.4
Investing activities	(1.7)	(2.7)
Financing activities	(19.9)	(30.0)
Net increase (decrease) in cash and cash equivalents	$2.0	$(7.3)
Capital expenditures for property, plant and equipment	$1.7	$2.7

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(1) Amounts are shown exclusive of depreciation and amortization. Amounts excluded from selling, general and administrative expenses are nominal. Depreciation and amortization is primarily comprised of the following components:

	Three Months Ended March 31, 2016	2015
	(in millions)	
Depreciation and amortization excluded from direct operating expenses	$6.8	$6.6
Depreciation and amortization excluded from cost of product sold	0.2	0.2
	$7.0	$6.8

(2) Our selling, general and administrative expenses and direct operating expenses include amounts for share-based compensation charges, which include amounts related to CVR Energy's share-based compensation expense allocated to us by CVR Energy for financial reporting purposes. See Note 5 ("Share Based Compensation") to Part I, Item 1 of this Report for further discussion of allocated share-based compensation. The charges for allocated share-based compensation was approximately $0.1 million and $0.2 million, respectively, for the three months ended March 31, 2016 and 2015, which was included in selling, general and administrative expenses (exclusive of depreciation and amortization) on the Condensed Consolidated Statement of Operations. The amounts included in direct operating expenses (exclusive of depreciation and amortization) for the three months ended March 31, 2016 and 2015 were nominal.

(3) On April 1, 2016 CVR Partners completed the previously announced mergers contemplated by the Merger Agreement with East Dubuque and East Dubuque GP continuing as surviving entities and subsidiaries of CVR Partners. The Partnership incurred approximately $1.2 million of legal and other professional fees and other merger

related expenses for the three months ended March 31, 2016, as discussed in Note 4 ("Mergers") to Part I, Item 1 of this report, which are included in selling, general and administrative expenses.

(4) EBITDA is defined as net income before (i) interest (income) expense, (ii) income tax expense and (iii) depreciation and amortization expense.

Adjusted EBITDA is defined as EBITDA further adjusted for the impact of non-cash share-based compensation, and, when applicable, major scheduled turnaround expenses, loss on extinguishment of debt, loss on disposition of assets and expenses associated with the East Dubuque mergers.

We present EBITDA because we believe it allows users of our financial statements, such as investors and analysts, to assess our financial performance without regard to financing methods, capital structure or historical cost basis. We present Adjusted EBITDA because we have found it helpful to consider an operating measure that excludes expenses, such as major scheduled turnaround expenses, loss on extinguishment of debt, loss on disposition of assets and expenses associated with the East Dubuque mergers, relating to transactions not reflective of our core operations. When applicable, each of these expenses is discussed herein, so that investors have complete information about expenses. In addition, we believe that it is useful to exclude from Adjusted EBITDA non-cash share-based compensation, although it is a recurring cost incurred in the ordinary course of business. In our view, non-cash share-based compensation, which also is presented in our financial statements and discussed herein, reflects a non-cash cost which may obscure, for a given period, trends in the underlying business, due to the timing and nature of the equity awards. We also present Adjusted EBITDA because it is the starting point used by the board of directors of our general partner when calculating our available cash for distribution.

EBITDA and Adjusted EBITDA are not recognized terms under GAAP and should not be substituted for net income (loss) 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 common unitholders, help investors and analysts evaluate our ongoing operating results and allow for greater transparency in reviewing our overall financial, operational and economic performance by allowing investors to evaluate the same information used by management. 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 March 31,	
	2016	2015
	(in millions)	
Net income	$18.0	$29.8
Add:		
Interest expense and other financing costs, net	1.7	1.7
Depreciation and amortization	7.0	6.8
EBITDA	$26.7	$38.3
Add:		
Share-based compensation, non-cash	—	0.1
Expenses associated with the East Dubuque mergers	1.2	—
Adjusted EBITDA	$27.9	$38.4

(5) The board of directors of our general partner has a policy to calculate available cash for distribution starting with Adjusted EBITDA. For the three months ended March 31, 2016 and 2015, available cash for distribution equaled our Adjusted EBITDA reduced for cash needed for (i) net cash interest expense (excluding capitalized interest) and debt service and other contractual obligations; (ii) maintenance capital expenditures; and (iii) to the extent applicable, major scheduled turnaround expenses, reserves for future operating or capital needs that the board of directors of the general partner deemed necessary or appropriate, and transaction expenses associated with the East Dubuque mergers, if any. Available cash for distribution may be increased by the release of 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.

Available cash for distribution is not a recognized term under GAAP. Available cash for distribution should not be considered in isolation or as an alternative to net income or operating income, or any other measure of financial performance or 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 for distribution as reported by the Partnership may not be comparable to similarly titled measures of other entities, thereby limiting its usefulness as a comparative measure.

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A reconciliation of the available cash for distribution is as follows:

	Three Months Ended March 31, 2016	2015
	(in millions, except units and per unit data)	
Adjusted EBITDA	$27.9	$38.4
Adjustments:		
Less:		
Net cash interest expense (excluding capitalized interest) and debt service	(1.5)	(1.5)
Maintenance capital expenditures	(0.9)	(1.3)
Cash reserves for future turnaround expenses	—	(3.0)
Expenses associated with the East Dubuque mergers	(1.2)	—
Plus:		
Available cash associated with East Dubuque 2016 first quarter	6.3	—
Available cash for distribution	$30.6	$32.6
Available cash for distribution, per common unit (a)	$0.27	$0.45
Common units outstanding (in thousands) (a)	113,283	73,123

(a) Available cash for distribution, per common unit for the three months ended March 31, 2016 is calculated based on the post-merger common units outstanding.

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

	Three Months Ended March 31, 2016	2015
Key Operating Statistics:		
Production volume (thousand tons):		
Ammonia (gross produced) (1)	113.7	96.0
Ammonia (net available for sale) (1) (2)	15.1	14.6
UAN	248.2	252.1
Pet coke consumed (thousand tons)	126.9	124.9
Pet coke consumed (cost per ton) (3)	$17	$29
Sales (thousand tons):		
Ammonia	24.4	12.8
UAN	267.0	274.5
Product pricing at gate (dollars per ton) (4):		
Ammonia	$367	$553
UAN	$209	$263
On-stream factors (5):		
Gasification	97.7 %	99.4 %
Ammonia	97.2 %	94.4 %
UAN	91.4 %	97.8 %

	Three Months Ended March 31, 2016	2015
Market Indicators:		
Natural gas NYMEX (dollars per MMbtu)	$1.98	$2.81
Ammonia – Southern Plains (dollars per ton)	$375	$553
UAN – Corn belt (dollars per ton)	$229	$313

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(1) Gross tons produced for ammonia represent total ammonia produced, including ammonia produced that was upgraded 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, the Partnership acquired approximately 3.0 thousand tons and 21.2 thousand tons of ammonia during the three months ended March 31, 2016 and 2015, respectively.

(3) Our pet coke cost per ton purchased from CVR Refining averaged $9 and $21 for the three months ended March 31, 2016 and 2015, respectively. Third-party pet coke prices averaged $33 and $44 for the three months

ended March 31, 2016 and 2015, respectively.

(4) Product pricing at gate represents net sales less freight revenue divided by product sales volume in tons, and is shown in order to provide a pricing measure that is comparable across the fertilizer industry.

(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.

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Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015

Net Sales. Net sales were $73.1 million for the three months ended March 31, 2016 compared to $93.1 million for the three months ended March 31, 2015. The decrease of $20.0 million was primarily the result of lower UAN sales prices ($14.2 million), lower hydrogen sales volumes ($4.8 million), lower ammonia sales prices ($4.6 million) and lower UAN sales volumes ($2.1 million), partially offset by higher ammonia sales volumes ($6.5 million). For the three months ended March 31, 2016, UAN and ammonia made up $62.6 million and $9.1 million of our net sales, respectively. This compared to UAN and ammonia net sales of $78.9 million and $7.2 million, respectively, for the three months ended March 31, 2015. The following table demonstrates the impact of changes in sales volumes and pricing for UAN, ammonia and hydrogen for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015:

	Three Months Ended March 31, 2016			Three Months Ended March 31, 2015			Total Variance			
	Volume(1)	$ per ton(2)	Sales $(3)	Volume(1)	$ per ton(2)	Sales $(3)	Volume(1)	Sales $(3)	Price Variance	Volume Variance
UAN	267,049	$ 234	$62.6	274,540	$ 288	$78.9	(7,491)	$(16.3)	$(14.2)	$ (2.1)
Ammonia	24,397	$ 373	$9.1	12,821	$ 562	$7.2	11,576	$1.9	$(4.6)	$ 6.5
Hydrogen	160,408	$ 7	$1.1	600,278	$ 11	$6.5	(439,870)	$(5.4)	$(0.6)	$ (4.8)

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

(2) Includes freight charges. Hydrogen is based on $ per MSCF.

(3) Sales dollars in millions.

The decrease in UAN and ammonia sales prices for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 was primarily attributable to pricing fluctuation in the market. The increase of ammonia sales volume for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 was primarily attributable to the timing of customer demand. On-stream factors (total number of hours operated divided by total hours in the reporting period) for the gasification, ammonia and UAN units were 97.7%, 97.2% and 91.4%, respectively, for the three months ended March 31, 2016. Product pricing at gate for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 decreased 20.5% for UAN and decreased 33.6% for ammonia.

Cost of Product Sold (Exclusive of Depreciation and Amortization). Cost of product sold (exclusive of depreciation and amortization) consists primarily of freight and distribution expenses, pet coke expense, purchased ammonia and purchased hydrogen. Cost of product sold (exclusive of depreciation and amortization) for the three months ended March 31, 2016 was $16.3 million, compared to $25.8 million for the three months ended March 31, 2015. The $9.5 million decrease resulted from lower costs from transactions with third parties of $8.5 million and affiliates of $1.0 million. The lower third-party costs incurred during the three months ended March 31, 2016 was primarily the result of less purchased ammonia and third-party coke costs. The lower affiliate costs incurred during the three months ended March 31, 2016 were primarily the result of lower expense of CVR Refining pet coke. The decrease in affiliate and third-party coke expense was primarily related to decreased market prices of petroleum coke.

Direct Operating Expenses (Exclusive of Depreciation and Amortization). Direct operating expenses (exclusive of depreciation and amortization) consist primarily of energy and utility costs, direct costs of labor, property taxes, plant-related maintenance services and environmental and safety compliance costs as well as catalyst and chemical costs. Direct operating expenses (exclusive of depreciation and amortization) for the three months ended March 31, 2016 were $23.7 million as compared to $24.4 million for the three months ended March 31, 2015. The $0.7 million decrease resulted primarily from lower utilities, net ($1.7 million), partially offset by higher outside services ($1.0 million). The lower utilities, net is primarily the result of lower electrical rates.

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 applicable agreements. 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 and administrative expenses from affiliates. Selling, general and administrative expenses (exclusive of depreciation and amortization) were $6.4 million for the three months ended March 31, 2016 and $4.6 million for the three months ended March 31, 2015. The $1.8 million increase resulted primarily from a $1.6 million increase in costs of transactions with third parties and a $0.2 million increase in costs of transactions with affiliates. The overall variance was primarily the result of expenses associated with the East Dubuque mergers ($1.2 million), higher labor ($0.4 million) and higher bad debt reserves ($0.2 million) during the three months ended March 31, 2016.

Operating Income. Operating income was $19.7 million for the three months ended March 31, 2016, as compared to operating income of $31.5 million for the three months ended March 31, 2015. The decrease of $11.8 million for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015 was the result of the decrease in net sales ($20.0 million) and increases in selling general and administrative expenses ($1.8 million) and depreciation and amortization ($0.2 million), partially offset by decreases in cost of product sold ($9.5 million) and in direct operating expenses ($0.7 million).

Liquidity and Capital Resources

Our principal source of liquidity has historically been cash from operations, which can include cash advances from customers resulting from forward sales. Our principal uses of cash are funding our operations, distributions to common unitholders, capital expenditures and funding our debt service obligations.

On April 1, 2016, we incurred additional indebtedness in connection with consummating the mergers. The additional indebtedness included the Second Lien Notes (as defined below) and also included amounts drawn on a new senior term loan facility to repay the outstanding balances under the Wells Fargo Credit Agreement (as defined below), as discussed below under "Merger-Related Financing Arrangements." The outstanding balance under the Wells Fargo Credit Agreement was repaid in full and the Wells Fargo Credit Agreement was terminated on April 1, 2016. The repayment of the Wells Fargo Credit Agreement was funded from amounts drawn on the CRLLC Facility (as defined below). The CRLLC Facility is discussed further in Note 16 ("Subsequent Events") to Part I, Item I of this Report.

Also on April 1, 2016, the Partnership repaid all amounts outstanding under the Credit Agreement as defined and discussed in Note 11 ("Credit Facility") to Part I, Item I of this Report. Effective upon such repayment, the Credit Agreement and all related loan documents and security interests were terminated and released. The repayment was funded from amounts drawn on the CRLLC Facility.

The Partnership has $320.0 million of borrowings available under the AEPC Facility (as defined below) discussed below under "Merger-Related Financing Arrangements", which (i) may be used by the Partnership to provide funds to East Dubuque to make a change of control offer and, if applicable, a "clean-up" redemption in accordance with the indenture governing the Second Lien Notes or (ii) may be used by the Partnership or East Dubuque to make a tender offer for the Second Lien Notes and, in each case, pay fees and expenses related thereto.

We are considering various options to refinance with third-party borrowings the outstanding amounts under the CRLLC Facility and to refinance with third-party borrowings the outstanding amounts under the Second Lien Notes, should a change of control offer be accepted by the Second Lien Notes holders. Such third-party borrowings may be used in lieu of, or combination with, borrowings under the AEPC Facility. We believe that our cash from operations and available borrowings under the AEPC Facility, together with the options management is considering as discussed above, will be adequate to satisfy anticipated commitments and planned capital expenditures for the next twelve months, including commitments and expenditures associated with the consummation of the mergers. However, our future capital expenditures and other cash requirements could be higher than we currently expect as a result of various factors. Additionally, our ability to generate sufficient cash from our operating activities and secure additional financing depends on our future performance, which is subject to general economic, political, financial, competitive and other factors outside of our control.

Depending on the needs of our business, contractual limitations and market conditions, we may from time to time seek to issue equity securities, incur additional debt, issue debt securities, or otherwise refinance our existing debt. There can be no assurance that we will seek to do any of the foregoing or that we will be able to do any of the foregoing on terms acceptable to us or at all. Further discussion of declared cash distributions is included below under "Distributions to Unitholders."

Cash Balance and Other Liquidity

As of March 31, 2016, we had cash and cash equivalents of $52.0 million, including $0.8 million of customer advances. Working capital at March 31, 2016 was $76.5 million, consisting of $96.7 million in current assets and approximately $20.2 million in current liabilities. Working capital at December 31, 2015 was $72.7 million, consisting of $98.5 million in current assets and $25.9 million in current liabilities. As of April 26, 2016, we had cash and cash equivalents of $99.2 million, including East Dubuque cash and cash equivalents.

Interest Rate Swaps

Prior to the termination of the Credit Agreement on April 1, 2016, our profitability and cash flows were affected by changes in interest rates on our credit facility borrowings, specifically LIBOR and prime rates. The primary purpose of our interest rate risk management activities was to hedge our exposure to changes in interest rates by using interest rate derivatives to convert some or all of the interest rates we paid on our borrowings from a floating rate to a fixed interest rate.

We determined that the two interest rate swap agreements entered into in 2011 qualify for hedge accounting treatment. The impact recorded for the three months ended March 31, 2016 and 2015 was $0.1 million and $0.3 million, respectively, in interest expense. For the three months ended March 31, 2016 and 2015, the Partnership recorded a loss of approximately $0.0 million and $0.1 million, respectively, in the fair market value on the interest rate swaps. The interest rate swaps expired on February 12, 2016.

Merger-Related Financing Arrangements

On April 12, 2013, East Dubuque and East Dubuque Finance Corporation (formerly known as Rentech Nitrogen Finance Corporation), a wholly-owned subsidiary of East Dubuque ("Finance Corporation"), issued $320.0 million of 6.5% second lien senior secured notes due 2021 (the "Second Lien Notes") to qualified institutional buyers and non-United States persons in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended. The Second Lien Notes bear interest at a rate of 6.5% per year, payable semi-annually in arrears on April 15 and October 15 of each year. The Second Lien Notes will mature on April 15, 2021, unless repurchased or redeemed earlier in accordance with their terms.

East Dubuque is required under the change of control provision within the indenture governing the Second Lien Notes to offer to purchase all outstanding Second Lien Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon to the date of purchase. Under the terms of the indenture, no later than 30 days following the consummation of the mergers, East Dubuque is required to send notice to each holder of the Second Lien Notes and the trustee under the indenture describing the merger transaction and offer to repurchase the notes on a settlement date specified in the notice. The settlement date specified in the notice must be no earlier than 30 days and no later than 60 days from the date such notice is mailed. On or after April 15, 2016, East Dubuque may redeem some or all of the Second Lien Notes at a premium that will decrease over time, plus accrued and unpaid interest, if any, to the redemption date.

The Second Lien Notes are fully and unconditionally guaranteed, jointly and severally, by each of the East Dubuque’s existing domestic subsidiaries, other than Finance Corporation. In addition, the Second Lien Notes and the guarantees thereof are collateralized by a second priority lien on substantially all of East Dubuque’s and the guarantors’ assets, subject to permitted liens.

The Indenture prohibits East Dubuque from making distributions to CVR Partners if any Default (except a Reporting Default) or Event of Default (each as defined in the Indenture) exists. In addition, the Indenture contains covenants limiting East Dubuque's ability to make distributions to CVR Partners. The covenants apply differently depending on East Dubuque's Fixed Charge Coverage Ratio (as defined in the Indenture). If the Fixed Charge Coverage Ratio is not less than 1.75 to 1.0, East Dubuque will generally be permitted to make restricted payments, including distributions to CVR Partners, without substantive restriction. If the Fixed Charge Coverage ratio is less than 1.75 to 1.0, East Dubuque will generally be permitted to make restricted payments, including distributions to CVR Partners, up to an aggregate $60.0 million basket plus certain other amounts referred to as "incremental funds" under the Indenture.

On April 1, 2016, in connection with the closing of the mergers, the Partnership entered into a $320.0 million senior term loan facility (the "AEPC Facility") with American Entertainment Properties Corp., an affiliate of the Partnership ("AEPC"), as the lender, which (i) may be used by the Partnership to provide funds to East Dubuque to make a change of control offer and, if applicable, a "clean-up" redemption in accordance with the indenture governing the Second Lien Notes or (ii) may be used by the Partnership or East Dubuque to make a tender offer for the Second Lien Notes and, in each case, pay fees and expenses related thereto. The AEPC Facility is for a term of two years and bears interest at a rate of 12% per annum. Calculation of interest shall be on the basis of the actual number of days elapsed over a 360-day year and payable quarterly. The Partnership may voluntarily prepay in whole or in part the borrowings under the AEPC Facility without premium or penalty.

The AEPC Facility contains covenants that require the Partnership to, among other things, notify AEPC of the occurrence of any default or event of default and provide AEPC with information in respect of the Partnership's business and financial status as it may reasonably require, including, but not limited to, copies of the Partnership's unaudited quarterly financial statements and audited annual financial statements. In addition, the AEPC Facility contains customary events of default, including, among others, failure to pay any sum payable when due and the occurrence of a default of other indebtedness in excess of $25.0 million.

We are also considering various third-party refinancing options in association with funding the change of control offer, which may be used in lieu of, or in combination with, borrowings under the AEPC Facility.

Immediately prior to the mergers, East Dubuque had outstanding advances 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.

On April 1, 2016, in connection with the closing of the mergers, the Partnership entered into a $300.0 million senior term loan credit facility (the "CRLLC Facility") with CRLLC, as the lender, the proceeds of which were used by the Partnership (i) to fund the repayment of amounts outstanding under the Wells Fargo Credit Agreement (ii) to pay the cash consideration and to pay fees and expenses in connection with the mergers and related transactions and (iii) to repay all of the loans outstanding under the Credit Agreement. The CRLLC Facility has a term of two years and bears an interest rate of 12.0% per annum. Interest is calculated on the basis of the actual number of days elapsed over a 360-day year and payable quarterly. The Partnership may voluntarily prepay in whole or in part the borrowings under the CRLLC Facility without premium or penalty. In April 2016, the Partnership borrowed $300.0 million under the CRLLC Facility.

The CRLLC Facility contains covenants that require the Partnership to, among other things, notify CRLLC of the occurrence of any default or event of default and provide CRLLC with information in respect of the Partnership’s business and financial status as it may reasonably require, including, but not limited to, copies of the Partnership’s unaudited quarterly financial statements and audited annual financial statements. In addition, the CRLLC Facility contains customary events of default, including, among others, failure to pay any sum payable when due and the occurrence of a default of other indebtedness in excess of $25.0 million.

We are considering various third-party refinancing options to refinance the amounts outstanding under the CRLLC Facility.

Capital Spending

Our total capital expenditures for the three months ended March 31, 2016 were approximately $1.7 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 $1.7 million spent for the three months ended March 31, 2016, approximately $0.9 million was related to maintenance capital projects and the remainder was related to growth capital projects. For the three months ended March 31, 2016, capital expenditures were the result of various individually less significant projects.

Capital spending for our business has been and will be determined by the Board of Directors of our general partner. Our maintenance capital expenditures for our Coffeyville Facility are expected to be approximately $7.0 million to $10.0 million for the year ending December 31, 2016. Maintenance capital expenditures for the East Dubuque Facility subsequent to the completion of the mergers are expected to be approximately $10.0 million to $12.0 million for nine

months ending December 31, 2016.
The East Dubuque Facility has started an ammonia synthesis converter project, the cost of which is categorized as growth capital spending. Replacement of an ammonia synthesis converter at the East Dubuque Facility is expected to increase reliability, production and plant efficiency. The project is expected to be completed before the end of summer 2016, and post-merger expenditures for this project are estimated to be between $8.0 million to $11.0 million.
Future capital spending estimates may change as a result of unforeseen circumstances and a change in our plans and may be revised from time to time or amounts may not be spent in the manner discussed herein. Planned capital expenditures for 2016 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 plants.
Major Scheduled Turnaround Expenditures
Consistent, safe and reliable operations are critical to our financial performance and results of operations. Unplanned downtime of either 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

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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 Coffeyville Facility has undergone a full facility turnaround every two to three years. Turnarounds at the Coffeyville Facility are expected to last 14-21 days. The Coffeyville Facility underwent a full facility turnaround in the third quarter of 2015, at a cost of approximately $7.0 million. The Partnership is planning to undergo the next scheduled full facility turnaround at the Coffeyville Facility in the second half of 2017.

Historically, the East Dubuque Facility has also undergone a full facility turnaround every two to three years. The East Dubuque Facility is planning to undergo the next scheduled full facility turnaround in the second quarter of 2016. The turnaround is expected to last between 25-30 days. Expenses associated with the East Dubuque Facility turnaround are estimated to be between $5.0 million to $7.0 million. The lost production during the downtime is expected to result in reduced sales and reduced variable expenses for the East Dubuque Facility during 2016.

Distributions to Unitholders

The board of directors of the Partnership's general partner has a policy for the Partnership to distribute all available cash generated on a quarterly basis. On March 7, 2016, the Partnership paid a cash distribution to the Partnership's unitholders of record on the close of business on February 29, 2016 for the fourth quarter of 2015 in the amount of $0.27 per common unit, or $19.7 million in aggregate.

See Note 16 ("Subsequent Events") to Part I, Item I of this Report for information on the Partnership's first quarter of 2016 distribution.

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Cash Flows

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

	Three Months Ended March 31,	
	2016	2015
	(in millions)	
Net cash flow provided by (used in):		
Operating activities	$23.6	$25.4
Investing activities	(1.7)	(2.7)
Financing activities	(19.9)	(30.0)
Net increase (decrease) in cash and cash equivalents	$2.0	$(7.3)

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 three months ended March 31, 2016 were approximately $23.6 million. Fluctuations in trade working capital increased our operating cash flow by $3.5 million due to a decrease in inventory of $4.9 million and an increase in accounts payable of $0.7 million, partially offset by an increase in accounts receivable of $2.1 million. The decrease in inventory was primarily attributable to decrease in finished goods inventory as a result of increased sales volumes for the three months ended March 31, 2016. The increase in accounts receivable was primarily attributable to an increase in sales and normal fluctuations in the timing of payments. Fluctuations in other working capital of $5.8 million decreased our operating cash flow and were due to a decrease to accrued expenses and other current liabilities of $4.2 million, a decrease in deferred revenue of $2.3 million, partially offset by a decrease to prepaid expenses and other current assets of $0.7 million for the three months ended March 31, 2016. The decrease in accrued expenses and other current liabilities was primarily due to the payment of incentive awards. The decrease in deferred revenue was primarily attributable to increased sales for the three months ended March 31, 2016.

Net cash flows provided by operating activities for the three months ended March 31, 2015 were approximately $25.4 million. Fluctuations in trade working capital had a nominal impact on our operating cash flow due to an increase in accounts receivable of $2.7 million, offset by a decrease in inventory of $1.7 million and an increase in accounts payable of $1.0 million. The increase in accounts receivable was primarily attributable to an increase in sales and normal fluctuations in the timing of payments. The decrease in inventory was due to a decrease in finished goods inventory as a result of increased sales for the three months ended March 31, 2015, partially offset by purchases of parts and supplies. Fluctuations in other working capital of $12.5 million decreased our operating cash flow and were due to a decrease in deferred revenue of $7.3 million, a decrease to accrued expenses and other current liabilities of $4.8 million and an increase to prepaid expenses and other current assets of $0.4 million for the three months ended March 31, 2015. The decrease in deferred revenue was primarily attributable to lower market demand for prepaid contracts and increased sales for the three months ended March 31, 2015. The decrease in accrued expenses and other current liabilities was primarily attributable to a decrease in balances related to accrued railcar regulatory inspections of $1.9 million as well as decreases due to the payment of incentive awards.

Cash Flows Used in Investing Activities

Net cash used in investing activities for the three months ended March 31, 2016 was $1.7 million compared to $2.7 million for the three months ended March 31, 2015. For the three months ended March 31, 2016 and 2015, net cash used in investing activities was the result of capital expenditures.

Cash Flows Used in Financing Activities

Net cash flows used in financing activities for the three months ended March 31, 2016 were $19.9 million, compared to net cash flows used in financing activities for the three months ended March 31, 2015 of $30.0 million. The net cash used in financing activities for the three months ended March 31, 2016 and 2015 was primarily attributable to quarterly cash distributions.

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Contractual Obligations

As of March 31, 2016, our contractual obligations included long-term debt, operating leases, unconditional purchase obligations, other specified capital and commercial commitments and interest payments. There were no material changes outside the ordinary course of our business with respect to our contractual obligations during the three months ended March 31, 2016, from those disclosed in our 2015 Form 10-K.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

Refer to Note 3 ("Recent Accounting Pronouncements") to Part I, Item 1 of this Report for a discussion of recent accounting pronouncements applicable to the Partnership.

Critical Accounting Policies

Our critical accounting policies are disclosed in the "Critical Accounting Policies" section of our 2015 Form 10-K. No modifications have been made to our critical accounting policies.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Partnership had exposure to interest rate risk on 50% of its $125.0 million floating rate term debt. On April 1, 2016, in connection with the completion of the mergers with East Dubuque, the Partnership repaid all amounts outstanding under the Partnership's credit facility. See also Note 4 ("Mergers") and Note 16 ("Subsequent Events") to Part I, Item I of this Report for discussion of subsequent events related to the Partnership's debt.

Commodity Price, Foreign Currency Exchange and Non-Operating
Riskp:2px;padding-bottom:2px;padding-right:2px;">
2018

2017
Amortization recorded against rental income related to above and (below) market leases
$
(352
)

$
(108
)

$
(660
)

$
(371
)
Rental expense related to above and (below) market leasehold interests
287

322

850

617

Amortization expense related to in place leases and tenant relationships
18,475

18,757

52,800

45,944

6. Receivables and Other Assets

Receivables and other assets consisted of the following as of September 30, 2018 and December 31, 2017, respectively (in thousands):

	September 30, 2018	December 31, 2017
Tenant receivables, net	$ 13,062	$ 20,269
Other receivables, net	15,067	9,305
Deferred financing costs, net	6,480	7,759
Deferred leasing costs, net	28,783	25,494
Straight-line rent receivables, net	89,531	85,143
Prepaid expenses, deposits, equipment and other, net	58,971	58,358
Derivative financial instruments - interest rate swaps	1,588	1,529
Total	$ 213,482	$ 207,857

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The following is a summary of the amortization of deferred leasing costs and financing costs for the three and nine months ended September 30, 2018, and 2017, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Amortization expense related to deferred leasing costs	$1,357	$1,445	$4,166	$4,179
Interest expense related to deferred financing costs	431	398	1,293	1,061

7. Debt

Debt consisted of the following as of September 30, 2018 and December 31, 2017, respectively (in thousands):

	September 30, 2018	December 31, 2017
Unsecured revolving credit facility	$—	$—
Unsecured term loans	500,000	500,000
Unsecured senior notes	1,850,000	1,850,000
Fixed rate mortgages	279,230	414,524
Variable rate mortgages	—	37,918
	2,629,230	2,802,442
Deferred financing costs, net	(14,448)	(15,850)
Discount, net	(5,123)	(5,561)
Total	$2,609,659	$2,781,031

Unsecured Credit Agreement

Unsecured Revolving Credit Facility due 2022

In 2017, HTALP entered into an amended and restated $1.3 billion unsecured credit agreement (the “Unsecured Credit Agreement”) which increased the amount available under the unsecured revolving credit facility to $1.0 billion and extended the maturities of the unsecured revolving credit facility to June 30, 2022 and for the $300.0 million unsecured term loan referenced below until February 1, 2023. The maximum principal amount of the Unsecured Credit Agreement may be increased by up to $750.0 million, subject to certain conditions, for a total principal amount of $2.05 billion.

Borrowings under the unsecured revolving credit facility accrue interest at a rate equal to adjusted LIBOR, plus a margin ranging from 0.83% to 1.55% per annum based on our credit rating. We also pay a facility fee ranging from 0.13% to 0.30% per annum on the aggregate commitments under the unsecured revolving credit facility. As of September 30, 2018, the margin associated with our borrowings was 1.00% per annum and the facility fee was 0.20% per annum.

Unsecured Term Loan due 2023

In 2017, we entered into an amended and restated Unsecured Credit Agreement as noted above. As part of this agreement, we obtained a $300.0 million unsecured term loan that was guaranteed by us with a maturity date of February 1, 2023. Borrowings under this unsecured term loan accrue interest equal to adjusted LIBOR, plus a margin ranging from 0.90% to 1.75% per annum based on our credit rating. The margin associated with our borrowings as of September 30, 2018 was 1.10% per annum. Including the impact of the interest rate swaps associated with our unsecured term loan, the interest rate was 3.46% per annum, based on our current credit rating. As of September 30, 2018, HTALP had $300.0 million under this unsecured term loan outstanding.

$200.0 Million Unsecured Term Loan due 2024

On August 1, 2018, HTALP entered into a modification of our $200.0 million unsecured term loan previously due in 2023. The modification decreased pricing at our current credit rating by 65 basis points. Borrowings under the unsecured term loan accrue interest at a rate equal to LIBOR, plus a margin ranging from 0.75% to 1.65% per annum based on our credit rating. The margin associated with our borrowings as of September 30, 2018 was 1.00% per annum. HTALP had interest rate swaps on a portion of the balance, which resulted in a fixed interest rate at 2.70% per annum. The maturity date was also extended by five months to January 2024. The other material terms of the unsecured term loan prior to the modification remained substantially unchanged. As of September 30, 2018, HTALP had $200.0 million under this unsecured term loan outstanding.

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HEALTHCARE TRUST OF AMERICA, INC. AND HEALTHCARE TRUST OF AMERICA HOLDINGS, LP
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

$300.0 Million Unsecured Senior Notes due 2021

As of September 30, 2018, HTALP had $300.0 million of unsecured senior notes outstanding that are guaranteed by us. These unsecured senior notes are registered under the Securities Act of 1933, as amended (the "Securities Act"), bear interest at 3.38% per annum and are payable semi-annually. Additionally, these unsecured senior notes were offered at 99.21% of the principal amount thereof, with an effective yield to maturity of 3.50% per annum. As of September 30, 2018, HTALP had $300.0 million of these unsecured senior notes outstanding that mature on July 15, 2021.

$400.0 Million Unsecured Senior Notes due 2022

In 2017, in connection with the $500.0 million unsecured senior notes due 2027 referenced below, HTALP issued $400.0 million of unsecured senior notes that are guaranteed by us. These unsecured senior notes are registered under the Securities Act, bear interest at 2.95% per annum and are payable semi-annually. Additionally, these unsecured senior notes were offered at 99.94% of the principal amount thereof, with an effective yield to maturity of 2.96% per annum. As of September 30, 2018, HTALP had $400.0 million of these unsecured senior notes outstanding that mature on July 1, 2022.

$300.0 Million Unsecured Senior Notes due 2023

As of September 30, 2018, HTALP had $300.0 million of unsecured senior notes outstanding that are guaranteed by us. These unsecured senior notes are registered under the Securities Act, bear interest at 3.70% per annum and are payable semi-annually. Additionally, these unsecured senior notes were offered at 99.19% of the principal amount thereof, with an effective yield to maturity of 3.80% per annum. As of September 30, 2018, HTALP had $300.0 million of these unsecured senior notes outstanding that mature on April 15, 2023.

$350.0 Million Unsecured Senior Notes due 2026

As of September 30, 2018, HTALP had $350.0 million of unsecured senior notes outstanding that are guaranteed by us. These unsecured senior notes are registered under the Securities Act, bear interest at 3.50% per annum and are payable semi-annually. Additionally, these unsecured senior notes were offered at 99.72% of the principal amount thereof, with an effective yield to maturity of 3.53% per annum. As of September 30, 2018, HTALP had $350.0 million of these unsecured senior notes outstanding that mature on August 1, 2026.

$500.0 Million Unsecured Senior Notes due 2027

In 2017, in connection with the $400.0 million unsecured senior notes due 2022 referenced above, HTALP issued $500.0 million of unsecured senior notes that are guaranteed by us. These unsecured senior notes are registered under the Securities Act, bear interest at 3.75% per annum and are payable semi-annually. Additionally, these unsecured senior notes were offered at 99.49% of the principal amount thereof, with an effective yield to maturity of 3.81% per annum. As of September 30, 2018, HTALP had $500.0 million of these unsecured senior notes outstanding that mature on July 1, 2027.

Fixed and Variable Rate Mortgages

In 2017, we were required by the seller under the Duke acquisition to execute a promissory note (the "Promissory Note"), as the borrower, for a part of the purchase price, a senior secured first lien loan, subject to customary non-recourse carve-outs, in the amount of $286.0 million. The Promissory Note bears interest at 4.0% per annum and is payable in three equal payments maturing on January 10, 2020 and is guaranteed by us. In June 2018, the first principal installment of $96.0 million was paid and as of September 30, 2018, the outstanding balance was $190.0 million.

In August 2018, we prepaid approximately $72.6 million of our fixed and variable rate mortgages, including the settlement of three cash flow hedges, utilizing net proceeds from the Greenville Disposition to do so, resulting in a loss on extinguishment of debt of $1.1 million, primarily due to prepayment fees we incurred. See Note 4 - Impairment and Dispositions for more detail on the Greenville Disposition. As of September 30, 2018, HTALP and its subsidiaries had only fixed rate mortgages with interest rates ranging from 2.85% to 5.50% per annum and a weighted average interest rate of 4.32% per annum.

Subsequent to September 30, 2018, we prepaid approximately $67.2 million of our fixed rate mortgages. We did not incur any prepayment fees related to this transaction.

Future Debt Maturities

The following table summarizes the debt maturities and scheduled principal repayments of our indebtedness as of September 30, 2018 (in thousands):

Year	Amount
2018	$1,086
2019	99,453
2020	99,641
2021	304,840
2022	462,089
Thereafter	1,662,121
Total	$2,629,230

Deferred Financing Costs

As of September 30, 2018, the future amortization of our deferred financing costs is as follows (in thousands):

Year	Amount
2018	$764
2019	2,956
2020	2,894
2021	2,721
2022	2,098
Thereafter	3,015
Total	$14,448

Debt Covenants

We are required by the terms of our applicable loan agreements to meet various affirmative and negative covenants that we believe are customary for these types of facilities, such as limitations on the incurrence of debt by us and our subsidiaries that own unencumbered assets, limitations on the nature of HTALP's business, and limitations on distributions by HTALP and its subsidiaries that own unencumbered assets. Our loan agreements also impose various financial covenants on us, such as a maximum ratio of total indebtedness to total asset value, a minimum ratio of EBITDA to fixed charges, a minimum tangible net worth covenant, a maximum ratio of unsecured indebtedness to unencumbered asset value, rent coverage ratios and a minimum ratio of unencumbered Net Operating Income ("NOI") to unsecured interest expense. As of September 30, 2018, we believe that we were in compliance with all such financial covenants and reporting requirements. In addition, certain of our loan agreements include events of default provisions that we believe are customary for these types of facilities, including restricting us from making dividend distributions to our stockholders in the event we are in default thereunder, except to the extent necessary for us to maintain our REIT status.

8. Derivative Financial Instruments and Hedging Activities

Risk Management Objective of Using Derivative Financial Instruments

We may use derivative financial instruments, including interest rate swaps, caps, options, floors and other interest rate derivative contracts, to hedge all or a portion of the interest rate risk associated with our borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with our operating and financial structure as well as to hedge specific anticipated transactions. We do not intend to utilize derivatives for speculative or other purposes other than interest rate risk management. The use of derivative financial instruments carries certain risks, including the risk that the counterparties to these contractual arrangements are not able to perform under the agreements. To mitigate this risk, we only enter into derivative financial instruments with counterparties with high credit ratings and with major financial institutions with which we and our affiliates may also have other financial relationships. We do not anticipate that any of the counterparties will fail to meet their obligations. We record counterparty credit risk valuation adjustments on interest rate swap derivative assets in order to properly reflect the credit quality of the counterparty. In addition, our fair value of interest rate swap derivative liabilities is adjusted to reflect the impact of our credit quality.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps and treasury locks as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable rate amounts from a counterparty in exchange for us making fixed rate payments over the life of the agreements without exchange of the underlying notional amount. A treasury lock is a synthetic forward sale of a U.S. treasury note, which is settled in cash based upon the difference between an agreed upon treasury rate and the prevailing treasury rate at settlement. Such treasury locks are entered into to effectively fix the treasury component of an upcoming debt issuance.

As a result of our adoption of ASU 2017-12 as of January 1, 2018, the entire change in the fair value of derivatives designated and qualify as cash flow hedges are recorded in accumulated other comprehensive income (loss) in the accompanying condensed consolidated balance sheets and are subsequently reclassified into earnings in the period in which the hedged forecasted transaction affects earnings. During the nine months ended September 30, 2018, such derivatives were used to hedge the variable cash flows associated with variable rate debt. Additionally, as a result of the foregoing adoption of ASU 2017-12, we no longer disclose the ineffective portion of the change in fair value of our derivatives financial instruments designated as hedges.

Amounts reported in accumulated other comprehensive income (loss) in the accompanying condensed consolidated balance sheets related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate debt. During the next twelve months, we estimate that an additional $1.2 million will be reclassified from other comprehensive income (loss) in the accompanying condensed consolidated balance sheets as an increase to interest related to derivative financial instruments in the accompanying condensed consolidated statements of operations.

In August 2018, we settled three of our five cash flow hedges utilizing net proceeds from the Greenville Disposition to do so. See Note 4 - Impairment and Dispositions in the accompanying notes to the condensed consolidated financial statements for more detail on the Greenville Disposition. As of September 30, 2018, we had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (in thousands, except number of instruments):

Cash Flow Hedges	September 30, 2018
Number of instruments	2
Notional amount	$ 155,000

The table below presents the fair value of our derivative financial instruments designated as a hedge as well as our classification in the accompanying condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017, respectively (in thousands).

	Asset Derivatives			Liability Derivatives		
		Fair Value at:			Fair Value at:	
Derivatives Designated as Hedging Instruments:	Balance Sheet Location	September 30, 2018	December 31, 2017	Balance Sheet Location	September 30, 2018	December 31, 2017
Interest rate swaps	Receivables and other assets	$1,588	$ 1,529	Derivative financial instruments	$ —	$ 1,089

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HEALTHCARE TRUST OF AMERICA, INC. AND HEALTHCARE TRUST OF AMERICA HOLDINGS, LP
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The table below presents the gain or loss recognized on our derivative financial instruments designated as hedges as well as our classification in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands). As a result of the foregoing adoption of ASU 2017-12, we no longer disclose the ineffective portion of the change in fair value of our derivative financial instruments designated as hedges.

	Gain (Loss) Recognized in OCI on Derivative			Gain (Loss) Reclassified from Accumulated OCI into Income (1)	
	Three Months Ended September 30,			Three Months Ended September 30,	
Derivatives Cash Flow Hedging Relationships:	2018	2017	Statement of Operations Location	2018	2017
Interest rate swaps	$ 96	$ 9	Interest related to derivative financial instruments	$ 223	$ (196)

	Gain (Loss) Recognized in OCI on Derivative			Gain (Loss) Reclassified from Accumulated OCI into Income (1)	
	Nine Months Ended September 30,			Nine Months Ended September 30,	
Derivatives Cash Flow Hedging Relationships:	2018	2017	Statement of Operations Location	2018	2017
Interest rate swaps	$ 1,437	$ (1,196)	Interest related to derivative financial instruments	$ 450	$ (565)

(1) For the three and nine months ended September 30, 2018, due to the settlement of three cash flow hedges that was a result of the prepayment of its associated debt, a forecasted amount of gain reclassified from accumulated OCI to income in the amount of approximately $0.6 million will not occur. This reclassification was reported in loss on extinguishment of debt on the accompanying condensed consolidated statements of operations.

Non-Designated Hedges

Derivatives not designated as hedges are not speculative and are used to manage our exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements of ASC 815 - Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly to gain or loss on change in fair value of derivative financial instruments in the accompanying condensed consolidated statements of operations. For the nine months ended September 30, 2017, we recorded a gain on change in fair value of derivative financial instruments of $0.9 million. There were no non-designated hedges during the three months ended September 30, 2017 and the three and nine months ended September 30, 2018.

Tabular Disclosure of Offsetting Derivatives

The table below sets forth the net effects of offsetting and net presentation of our derivatives as of September 30, 2018 and December 31, 2017, respectively (in thousands). The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets or liabilities are presented in the consolidated balance sheets.

Offsetting of Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
September 30, 2018	$ 1,588	$ —	$ 1,588	$ —	$ —	$ 1,588
December 31, 2017	1,529	—	1,529	—	—	1,529

Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
September 30, 2018	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2017	1,089	—	1,089	—	—	1,089

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Credit Risk Related Contingent Features

We have agreements with each of our derivative counterparties that contain a provision that if we default on any of our indebtedness, including a default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations.

We also have agreements with each of our derivative counterparties that incorporate provisions from our indebtedness with a lender affiliate of the derivative counterparty requiring it to maintain certain minimum financial covenant ratios on our indebtedness. Failure to comply with the covenant provisions would result in us being in default on any derivative instrument obligations covered by these agreements.

As of September 30, 2018, due to the settlement of three of our cash flow hedges, there is no fair value of derivatives in a net liability position. As of September 30, 2018, we have not posted any collateral related to these agreements and we were not in breach of any of the provisions of these agreements. As such, there is no termination value as of September 30, 2018. If we had breached any of the provisions of these agreements, we could have been required to settle our obligations under these agreements.

9. Commitments and Contingencies

Litigation

We engage in litigation from time to time with various parties as a routine part of our business, including tenant defaults. However, we are not presently subject to any material litigation nor, to our knowledge, is any material litigation threatened against us, which if determined unfavorably to us, would have a material effect on our condensed consolidated financial position, results of operations or cash flows.

Environmental Matters

We follow the policy of monitoring our properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist at our properties, we are not currently aware of any environmental liability with respect to our properties that would have a material effect on our condensed consolidated financial position, results of operations or cash flows. Further, we are not aware of any material environmental liability or any unasserted claim or assessment with respect to an environmental liability at our properties that we believe would require additional disclosure or the recording of a loss contingency.

Other

Our other commitments and contingencies include the usual obligations of real estate owners and operators in the normal course of business. In our opinion, these matters are not expected to have a material effect on our condensed consolidated financial position, results of operations or cash flows.

10. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests in the accompanying condensed consolidated balance sheets represent the noncontrolling interest in one joint venture in which we own the majority interest. As of September 30, 2018, approximately 14.3% of the earnings of the joint venture are allocated to redeemable noncontrolling interests. The following is summary of the activity of our redeemable noncontrolling interests as of September 30, 2018 and December 31, 2017, respectively (in thousands):

	September 30, 2018	December 31, 2017
Beginning balance	$ 6,737	$ 4,653
Net income attributable to noncontrolling interests	65	123
Distributions	(192)	(53)
Fair value adjustment	—	2,014
Ending balance	$ 6,610	$ 6,737

11. Stockholders’ Equity and Partners’ Capital

HTALP’s operating partnership agreement provides that it will distribute cash flow from operations and net sale proceeds to its partners in accordance with their overall ownership interests at such times and in such amounts as the general partner determines. Dividend distributions are made such that a holder of one OP Unit in HTALP will receive distributions from HTALP in an amount equal to the dividend distributions paid to the holder of one share of our common stock. In addition, for each share of common stock issued or redeemed by us, HTALP issues or redeems a corresponding number of OP Units.

Common Stock Offerings

In June 2018, we settled a forward sale arrangement pursuant to a forward equity agreement that we entered into in October 2017, which included the sale of approximately 2.6 million shares of our common stock for net proceeds of approximately $73.8 million, adjusted for costs to borrow equating to a net price to us of $28.94 per share of common stock. Refer to Note 13 - Per Share Data of HTA in the accompanying notes to the condensed consolidated financial statements for a more detailed discussion related to our forward equity agreement.

Stock Repurchase Plan

In August 2018, our Board of Directors approved a stock repurchase plan authorizing us to purchase up to $300.0 million of our common stock from time to time prior to the expiration thereof on June 7, 2020. During the nine months ended September 30, 2018, we repurchased 628,002 shares of our common stock, at an average price of $26.25 per share, for an aggregate amount of approximately $16.5 million, pursuant to this stock repurchase plan. As of September 30, 2018, the remaining amount of common stock available for repurchase under the stock repurchase plan was approximately $283.5 million. Subsequent to September 30, 2018, we repurchased 289,519 shares of our common stock at an average price of $25.69 per share, for an aggregate amount of approximately $7.4 million under this stock repurchase plan.

Common Stock Dividends

See our accompanying condensed consolidated statements of operations for the dividends declared during the three and nine months ended September 30, 2018 and 2017. On October 25, 2018, our Board of Directors announced a quarterly dividend of $0.310 per share of common stock and per OP unit to be paid on January 9, 2019 to stockholders of record of our common stock and holders of our OP Units on January 2, 2019.

Incentive Plan

Our Incentive Plan permits the grant of incentive awards to our employees, officers, non-employee directors and consultants as selected by our Board of Directors. The Plan authorizes us to grant awards in any of the following forms: options; stock appreciation rights; restricted stock; restricted or deferred stock units; performance awards; dividend equivalents; other stock-based awards, including units in HTALP; and cash-based awards. Subject to adjustment as provided in the Plan, the aggregate number of awards reserved and available for issuance under the Plan is 5,000,000 shares. As of September 30, 2018, there were 1,370,792 awards available for grant under the Plan.

Restricted Common Stock

For the three and nine months ended September 30, 2018, we recognized compensation expense of $2.1 million and $7.8 million, respectively. For the three and nine months ended September 30, 2017, we recognized compensation expense of $1.7 million and $5.5 million, respectively. Substantially all compensation expense was recorded in general and administrative expenses in the accompanying condensed consolidated statements of operations.

As of September 30, 2018, we had $8.8 million of unrecognized compensation expense, net of estimated forfeitures, which we will recognize over a remaining weighted average period of 1.5 years.

The following is a summary of our restricted common stock activity as of September 30, 2018 and 2017, respectively:

	September 30, 2018		September 30, 2017	
	Restricted Common Stock	Weighted Average Grant Date Fair Value	Restricted Common Stock	Weighted Average Grant Date Fair Value
Beginning balance	589,606	$ 29.38	640,870	$ 27.36

Granted	360,700	28.70	292,109	29.75
Vested	(255,946)	28.68	(278,821)	25.31
Forfeited	(38,882)	28.97	(58,384)	28.86
Ending balance	655,478	$ 29.30	595,774	$ 29.39

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HEALTHCARE TRUST OF AMERICA, INC. AND HEALTHCARE TRUST OF AMERICA HOLDINGS, LP
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

12. Fair Value of Financial Instruments

Financial Instruments Reported at Fair Value - Recurring

The table below presents our assets and liabilities measured at fair value on a recurring basis as of September 30, 2018, aggregated by the applicable level in the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Derivative financial instruments	$ —	$ 1,588	$ —	$ 1,588
Liabilities:				
Derivative financial instruments	$ —	$ —	$ —	$ —

The table below presents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2017, aggregated by the applicable level in the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Derivative financial instruments	$ —	$ 1,529	$ —	$ 1,529
Liabilities:				
Derivative financial instruments	$ —	$ 1,089	$ —	$ 1,089

Financial Instruments Reported at Fair Value - Non-Recurring

The table below presents our assets measured at fair value on a non-recurring basis as of September 30, 2018, aggregated by the applicable level in the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
MOB [(1)]	$ —	$ 10,110	$ —	$ 10,110

(1) During the nine months ended September 30, 2018, we recognized $8.9 million of impairment charges to the carrying value of six MOBs, one of which had been sold as of September 30, 2018 and one subsequent to September 30, 2018. The estimated fair value as of September 30, 2018 for the remaining four MOBs was based on the purchase price set forth in executed letters of intent for the purchase thereof and a pending, executed sales agreement.

The table below presents our assets measured at fair value on a non-recurring basis as of December 31, 2017, aggregated by the applicable level in the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
MOB [(1)]	$ —	$ 10,271	$ —	$ 10,271

(1) During the year ended December 31, 2017, we recognized $13.9 million of impairment charges to the carrying value of two MOBs and a portfolio of MOBs. The estimated fair value as of December 31, 2017 for these MOBs was based upon a pending, executed sales agreement and real estate market comparables.

There have been no transfers of assets or liabilities between levels. We will record any such transfers at the end of the reporting period in which a change of event occurs that results in a transfer. Although we have determined that the majority of the inputs used to value our interest rate swap derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with these instruments utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our interest rate swap derivative positions and have determined that the credit valuation adjustments are not significant to their overall valuation. As a result, we have determined that our interest rate swap derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Financial Instruments Disclosed at Fair Value

We consider the carrying values of cash and cash equivalents, tenant and other receivables, restricted cash and accounts payable, and accrued liabilities, to approximate fair value for these financial instruments because of the short period of time between origination of the instruments and their expected realization. All of these financial instruments are measured using Level 2.

The fair value of debt is estimated using borrowing rates available to us with similar terms and maturities, which is considered a Level 2 input. As of September 30, 2018, the fair value of the debt was $2,550.0 million compared to the carrying value of $2,609.7 million. As of December 31, 2017, the fair value of the debt was $2,826.3 million compared to the carrying value of $2,781.0 million.

13. Per Share Data of HTA

In October 2017, we entered a forward sale arrangement pursuant to a forward equity agreement to sell approximately 2.6 million shares of our common stock through our at-the-market program (the "ATM"). In June 2018, we settled our forward sale arrangement for proceeds of approximately $73.8 million, adjusted for costs to borrow equating to a net price to us of $28.94 per share of common stock. To account for the forward equity agreement, we considered the accounting guidance governing financial instruments and derivatives and concluded that our forward equity agreement was not a liability as it did not embody obligations to repurchase our shares of common stock nor did it embody obligations to issue a variable number of shares for which the monetary value was predominately fixed, varying with something other than the fair value of the shares, or varying inversely in relation to our shares. We also evaluated whether the agreement met the derivatives and hedging guidance scope exception to be accounted for as an equity instrument and concluded that the agreement can be classified as an equity contract based on the following assessment: (i) the agreement did not exercise contingencies were based on observable markets or indices besides those related to the market for our own stock price and operations; and (ii) none of the settlement provisions precluded the agreement from being indexed to our own common stock.

In addition, we considered the potential dilution resulting from the forward equity agreement on our earnings per common share calculations. We used the treasury method to determine the dilution resulting from the forward equity agreement during the period of time prior to settlement. The number of weighted-average shares outstanding diluted used in the computation of earnings per common share for the nine months ended September 30, 2018, included the effect from the assumed issuance of 2.6 million shares of our common stock pursuant to the settlement of the forward equity agreement at the contractual price, less the assumed repurchase of our common stock at the average market price using the proceeds of approximately $73.8 million, adjusted for costs to borrow. For the nine months ended September 30, 2018, approximately 330,000 weighted-average incremental shares of our common stock were excluded from the computation of our weighted-average shares-diluted, as their impact was anti-dilutive.

We include unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents as "participating securities" pursuant to the two-class method. The resulting classes are our common stock and restricted stock. Our forward equity agreement is not considered a participating security and, therefore, is not included in the computation of earnings per share using the two-class method. For the three and nine months ended September 30, 2018 and 2017, all of our earnings were distributed and the calculated earnings per share amount would be the same for all classes.

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HEALTHCARE TRUST OF AMERICA, INC. AND HEALTHCARE TRUST OF AMERICA HOLDINGS, LP
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following is the reconciliation of the numerator and denominator used in basic and diluted earnings per share of HTA for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income	$176,348	$13,957	$202,021	$22,105
Net income attributable to noncontrolling interests	(3,362)	(194)	(3,887)	(715)
Net income attributable to common stockholders	$172,986	$13,763	$198,134	$21,390
Denominator:				
Weighted average shares outstanding - basic	207,513	200,674	205,950	173,189
Dilutive shares - partnership units convertible into common stock	3,931	4,121	4,018	4,221
Adjusted weighted average shares outstanding - diluted	211,444	204,795	209,968	177,410
Earnings per common share - basic				
Net income attributable to common stockholders	$0.83	$0.07	$0.96	$0.12
Earnings per common share - diluted				
Net income attributable to common stockholders	$0.82	$0.07	$0.94	$0.12

14. Per Unit Data of HTALP

In October 2017, we entered a forward sale arrangement pursuant to a forward equity agreement to sell approximately 2.6 million shares of our common stock through our ATM. Refer to Note 13 - Per Share Data of HTA in the accompanying notes to the condensed consolidated financial statements for a more detailed discussion related to our forward equity agreement settled in June 2018.

The following is the reconciliation of the numerator and denominator used in basic and diluted earnings per unit of HTALP for the three and nine months ended September 30, 2018, and 2017, respectively (in thousands, except per unit data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income	$176,348	$13,957	$202,021	$22,105
Net income attributable to noncontrolling interests	(18)	(28)	(65)	(80)
Net income attributable to common unitholders	$176,330	$13,929	$201,956	$22,025
Denominator:				
Weighted average units outstanding - basic	211,444	204,795	209,968	177,410
Dilutive units - partnership units convertible into common units	—	—	—	—
Adjusted weighted average units outstanding - diluted	211,444	204,795	209,968	177,410
Earnings per common unit - basic:				
Net income attributable to common unitholders	$0.83	$0.07	$0.96	$0.12
Earnings per common unit - diluted:				
Net income attributable to common unitholders	$0.83	$0.07	$0.96	$0.12

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15. Supplemental Cash Flow Information

The following is the supplemental cash flow information for the nine months ended September 30, 2018 and 2017, respectively (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$87,303	$51,066
Income taxes paid	1,656	997
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Accrued capital expenditures	$243	$4,185
Debt assumed and entered into in connection with an acquisition	—	286,000
Dividend distributions declared, but not paid	65,544	62,494
Issuance of operating partnership units in HTALP in connection with an acquisition	—	610
Note receivable retired in connection with an acquisition	—	2,494
Redemption of noncontrolling interest	5,195	5,694

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

The use of the words "we," "us" or "our" refers to HTA and HTALP, collectively.

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes appearing elsewhere in this Quarterly Report, as well as with the audited consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2017 Annual Report on Form 10-K. Such condensed consolidated financial statements and information have been prepared to reflect HTA's and HTALP's financial position as of September 30, 2018 and December 31, 2017, together with results of operations and cash flows for three and nine months ended September 30, 2018 and 2017.

The information set forth below is intended to provide readers with an understanding of our financial condition, changes in financial condition and results of operations.

- Forward-Looking Statements;
- Executive Summary;
- Company Highlights;
- Critical Accounting Policies;
- Recently Issued or Adopted Accounting Pronouncements;
- Factors Which May Influence Results of Operations;
- Results of Operations;
- Non-GAAP Financial Measures;
- Liquidity and Capital Resources;
- Commitments and Contingencies;
- Debt Service Requirements;
- Off-Balance Sheet Arrangements; and
- Inflation.

Forward-Looking Statements

Certain statements contained in this Quarterly Report constitute forward-looking statements within the meaning of the safe harbor from civil liability provided for such statements by the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act")). Such statements include, in particular, statements about our plans, strategies, prospects and estimates regarding future MOB market performance. Additionally, such statements are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially and in adverse ways from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Forward-looking statements are generally identifiable by the use of such terms as "expect," "project," "may," "should," "could," "would," "intend," "plan," "anticipate," "estimate," "believe," "continue," "opi "potential," "pro forma" or the negative of such terms and other comparable terminology. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this Quarterly Report is filed with the SEC. We cannot guarantee the accuracy of any such forward-looking statements contained in this Quarterly Report, and we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

Any such forward-looking statements reflect our current views about future events, are subject to unknown risks, uncertainties, and other factors, and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, provide dividends to stockholders and maintain the value of our real estate properties, may be significantly hindered. Factors that might impair our ability to meet such forward-looking statements include, without limitation, those discussed in Part I, Item 1A - Risk Factors in our 2017 Annual Report on Form 10-K, which is incorporated herein.

Forward-looking statements express expectations of future events. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties that could cause actual events or results to differ materially from those projected. Due to these inherent uncertainties, our stockholders are urged not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date made. In addition, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to projections over time, except as required by law.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning us and our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Executive Summary

We are the largest publicly-traded REIT focused on MOBs in the U.S. as measured by the GLA of our MOBs. We conduct substantially all of our operations through HTALP. We invest in MOBs that we believe will serve the future of healthcare delivery and MOBs that are primarily located on health system campuses, near university medical centers, or in core community outpatient locations. We also focus on our key markets that have certain demographic and macro-economic trends and where we can utilize our institutional full-service property management, leasing and development services platform to generate strong tenant and health system relationships and operating cost efficiencies. Our primary objective is to maximize stockholder value with disciplined growth through strategic investments that provide an attractive risk-adjusted return for our stockholders by consistently increasing our cash flow. In pursuing this objective, we: (i) seek internal growth through proactive asset management, leasing, building services and property management oversight; (ii) target accretive acquisitions and developments of MOBs in markets with attractive demographics that complement our existing portfolio; and (iii) actively manage our balance sheet to maintain flexibility with conservative leverage. Additionally, from time to time we consider, on an opportunistic basis, significant portfolio acquisitions that we believe fit our core business and could enhance our existing portfolio.

Since 2006, we have invested $6.8 billion to create a portfolio of MOBs, development projects and other healthcare assets consisting of approximately 23.2 million square feet of GLA throughout the U.S. Approximately 68% of our portfolio was located on the campuses of, or adjacent to, nationally and regionally recognized healthcare systems. Our portfolio is diversified geographically across 32 states, with no state having more than 20% of our total GLA as of September 30, 2018. We are concentrated in 20 to 25 key markets that are experiencing higher economic and demographic trends than other markets, on average, that we expect will drive demand for MOBs. As of September 30, 2018, we had approximately 1 million square feet of GLA in nine of our top ten markets and approximately 93% of our portfolio, based on GLA, is located in the top 75 MSAs, with Dallas, Houston, Boston, Tampa and Atlanta being our largest markets by investment.

Company Highlights

Portfolio Operating Performance

- For the three months ended September 30, 2018, total revenue decreased (0.5)%, or $(0.9) million, to $175.1 million, compared to the three months ended September 30, 2017. For the nine months ended September 30, 2018, total revenue increased 19.1%, or $83.9 million, to $524.1 million, compared to the nine months ended September 30, 2017.
- For the three months ended September 30, 2018, net income was $176.3 million, compared to $14.0 million, for the three months ended September 30, 2017. For the nine months ended September 30, 2018, net income was $202.0 million, compared to $22.1 million, for the nine months ended September 30, 2017.
- For the three months ended September 30, 2018, net income attributable to common stockholders was $0.82 per diluted share, or $173.0 million, compared to $0.07 per diluted share, or $13.8 million, for the three months ended September 30, 2017. For the nine months ended September 30, 2018, net income attributable to common stockholders was $0.94 per diluted share, or $198.1 million, compared to $0.12 per diluted share, or $21.4 million, for the nine months ended September 30, 2017.
- For the three months ended September 30, 2018, HTA's FFO, as defined by NAREIT, was $81.4 million, or $0.38 per diluted share, compared to $0.41 per diluted share, or $84.2 million, for the three months ended September 30, 2017.

For the nine months ended September 30, 2018, HTA’s FFO was $250.4 million, or $1.19 per diluted share, compared to $1.12 per diluted share, or $198.7 million, for the nine months ended September 30, 2017.

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- For the three months ended September 30, 2018, HTALP's FFO was $84.7 million, or $0.40 per diluted OP Unit, compared to $0.41 per diluted OP Unit, or $84.4 million, for the three months ended September 30, 2017. For the nine months ended September 30, 2018, HTALP's FFO was $254.2 million, or $1.21 per diluted OP Unit, compared to $1.12 per diluted OP Unit, or $199.3 million, for the nine months ended September 30, 2017.
- For the three months ended September 30, 2018, HTA's and HTALP's Normalized FFO was $0.41 per diluted share and OP Unit, or $86.1 million, compared to the three months ended September 30, 2017. For the nine months ended September 30, 2018, HTA's and HTALP's Normalized FFO was $1.22 per diluted share and OP Unit, or $256.2 million, compared to the nine months ended September 30, 2017.
- For additional information on FFO and Normalized FFO, see "FFO and Normalized FFO" below, which includes a reconciliation to net income attributable to common stockholders/unitholders and an explanation of why we present this non-GAAP financial measure.
- For the three months ended September 30, 2018, NOI decreased (0.3)%, or $(0.3) million, to $119.3 million, compared to the three months ended September 30, 2017. For the nine months ended September 30, 2018, NOI increased 19.1%, or $57.4 million, to $358.8 million, compared to the nine months ended September 30, 2017.
- For the three months ended September 30, 2018, Same-property Cash NOI increased 2.5%, or $2.7 million, to $108.8 million, compared to the three months ended September 30, 2017. For the nine months ended September 30, 2018, Same-Property Cash NOI increased 2.4%, or $5.6 million, to $233.2 million, compared to the nine months ended September 30, 2017. Excluding the MOBs located on our Forest Park Dallas campus, Same-Property Cash NOI growth was 2.7% for the nine months ended September 30, 2018.
- For additional information on NOI and Same-Property Cash NOI, see "NOI, Cash NOI and Same-Property Cash NOI" below, which includes a reconciliation from net income and an explanation of why we present these non-GAAP financial measures.

Key Market Focused Strategy and Investments

We believe we have been one of the most active investors in the medical office sector over the last decade. This has enabled us to create a high quality portfolio focused on MOBs serving the future of healthcare with scale and significance in 20 to 25 key markets.

- Our investment strategy includes alignment with key healthcare systems, hospitals, and leading academic medical universities. We are the largest owner of on-campus or adjacent MOBs in the country, with approximately 16 million square feet of GLA, or 68%, of our portfolio located in these locations. The remaining 32% of our portfolio is located in core community outpatient locations where healthcare is increasingly being delivered.
- Over the last several years, our investments have been focused in our 20 to 25 key markets which we believe will outperform the broader U.S. from an economic and demographic perspective. As of September 30, 2018, approximately 93% of our portfolio's GLA is located in the top 75 MSAs. Our key markets represent top MSAs with strong growth metrics in jobs, household income and population, as well as low unemployment and mature healthcare infrastructures. Many of our key markets are also supported by strong university systems.
- Our key market focus has enabled us to establish scale and effectively utilize our internal property management and leasing platform to deliver consistent same store growth and additional yield on investments, and also cost effective service to tenants. As of September 30, 2018, we had approximately 1 million square feet of GLA in nine of our top ten markets and approximately 500,000 square feet in each of our top 15 markets. We expect to establish this scale across 20 to 25 key markets as our portfolio expands.
- During the three months ended September 30, 2018, HTA completed the disposition of 19 MOBs, primarily located in Greenville, South Carolina for an aggregate gross sales price of $305.9 million totaling approximately 1.1 million square feet of GLA, generating gains of approximately $166.4 million.
- During the nine months ended September 30, 2018, we announced a new development in our key gateway market of Miami, Florida and commenced two redevelopments, including an agreement to build a new on-campus MOB in Raleigh, North Carolina. These projects will have total expected construction costs of approximately $70.6 million and are approximately 78% pre-leased to major health systems.
- During the nine months ended September 30, 2018, we invested $13.9 million to acquire three MOBs of approximately 60,000 square feet of GLA in the key market of Raleigh, North Carolina. In addition, we invested $3.9

million to consolidate our ownership interests in several other MOBs.

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Internal Growth through Proactive In-House Property Management and Leasing

We believe we have the largest full-service operating platform in the medical office space that consists of our in-house property management and leasing which allows us to better manage and service our existing portfolio. In each of these markets, we have established a strong in-house property management and leasing platform that has allowed us to develop valuable relationships with health systems, physician practices, universities, and regional development firms that have led to investment and leasing opportunities. Our full-service operational platforms have also enabled us to focus on generating cost efficiencies as we gain scale across individual markets and regions.

- As of September 30, 2018, our in-house property management and leasing platform operated approximately 21.7 million square feet of GLA, or 93%, of our total portfolio.
- As of September 30, 2018, our leased rate (which includes leases which have been executed, but which have not yet commenced) was 92.1% by GLA and our occupancy rate was 90.9% by GLA.
- We entered into new and renewal leases on approximately 532,000 and 2.2 million square feet of GLA, or 2.3% and 9.5%, respectively, of our portfolio during the three and nine months ended September 30, 2018.
- Tenant retention for the Same-Property portfolio was 82% and 83%, which included approximately 381,000 and 1.7 million square feet of GLA of expiring leases, for the quarter and year-to-date, respectively, which we believe is indicative of our commitment to maintaining buildings in desirable locations and fostering strong tenant relationships. Tenant retention is defined as the sum of the total leased GLA of tenants that renewed a lease during the period over the total GLA of leases that renewed or expired during the period.

Financial Strategy and Balance Sheet Flexibility

- As of September 30, 2018, we had total leverage, measured by debt less cash and cash equivalents to total capitalization, of 29.7%. Total liquidity was $1.2 billion, including cash and cash equivalents of $225.5 million and $994.5 million available on our unsecured revolving credit facility (which includes the impact of $5.5 million of outstanding letters of credit) as of September 30, 2018.
- As of September 30, 2018, the weighted average remaining term of our debt portfolio was 5.2 years.
- In August 2018, we prepaid approximately $72.6 million of our fixed and variable rate mortgages, including the settlement of three cash flow hedges, utilizing net proceeds from the Greenville Disposition to do so. Additionally, in August 2018, HTALP entered into a modification of our $200.0 million unsecured term loan previously due in 2023. The modification decreased pricing at our current credit rating by 65 basis points. The maturity date was also extended by five months to January 2024. The other material terms of the unsecured term loan prior to the modification remained substantially unchanged.
- In August 2018, our Board of Directors approved a stock repurchase plan authorizing us to purchase up to $300 million of our common stock from time to time prior to the expiration thereof on June 7, 2020. During the nine months ended September 30, 2018, we repurchased 628,002 shares of our common stock, at an average price of $26.25 per share, for an aggregate amount of approximately $16.5 million, pursuant to this stock repurchase plan.
- In June 2018, we settled a forward sale arrangement pursuant to a forward equity agreement that was entered into in October 2017, which included approximately 2.6 million shares of our common stock for net proceeds of approximately $73.8 million, adjusted for costs to borrow equating to a net price to us of $28.94 per share of common stock.
- On October 25, 2018, our Board of Directors announced a quarterly dividend of $0.310 per share of common stock and per OP Unit.

Critical Accounting Policies

The complete list of our critical accounting policies was disclosed in our 2017 Annual Report on Form 10-K. There have been no material changes to our critical accounting policies as disclosed herein. For further information on significant accounting policies that impact us, see Note 2 - Summary of Significant Accounting Policies in the accompanying condensed consolidated financial statements.

Recently Issued or Adopted Accounting Pronouncements

See Note 2 - Summary of Significant Accounting Policies in the accompanying condensed consolidated financial statements for a discussion of recently issued or adopted accounting pronouncements.

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Factors Which May Influence Results of Operations

We are not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally and the risk factors previously listed in Part I, Item 1A - Risk Factors, in our 2017 Annual Report on Form 10-K that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the investment, management and operation of our properties.

Rental Income

The amount of rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space that will become available from unscheduled lease terminations at the then applicable rental rates. Negative trends in one or more of these factors could adversely affect our rental income in future periods.

Investment Activity

During the nine months ended September 30, 2018, we had investments with an aggregate purchase price of $17.8 million and dispositions with an aggregate gross sales price of $305.9 million. Including the Duke acquisition, during the nine months ended September 30, 2017, we had investments with an aggregate gross purchase price of $2.7 billion, which included a 50% ownership in an unconsolidated joint venture and a disposition with a gross sales price of $5.0 million.

Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2018 and 2017

As of September 30, 2018 and 2017, we owned and operated approximately 23.2 million and 24.2 million square feet of GLA, respectively, with a leased rate of 92.1% and 91.7%, respectively (which includes leases which have been executed, but which have not yet commenced), and an occupancy rate of 90.9%, and 90.6%, respectively. All explanations are applicable to both HTA and HTALP unless otherwise noted.

Comparison of the three months ended September 30, 2018 and 2017, respectively, is set forth below:

	Three Months Ended September 30,			
	2018	2017	Change	% Change
Revenues:				
Rental income	$175,038	$175,431	$(393)	(0.2)%
Interest and other operating income	97	563	(466)	(82.8)
Total revenues	175,135	175,994	(859)	(0.5)
Expenses:				
Rental	55,789	56,331	(542)	(1.0)
General and administrative	8,770	8,283	487	5.9
Transaction	346	261	85	32.6
Depreciation and amortization	70,568	70,491	77	0.1
Impairment	4,281	—	4,281	NM
Total expenses	139,754	135,366	4,388	3.2
Income before other income (expense)	35,381	40,628	(5,247)	(12.9)
Interest income (expense):				
Interest related to derivative financial instruments	169	(264)	433	NM
Interest related to debt	(25,003)	(25,924)	921	3.6
Gain on sale of real estate, net	166,372	—	166,372	NM
Loss on extinguishment of debt, net	(1,092)	(774)	(318)	(41.1)
Income from unconsolidated joint venture	432	318	114	35.8
Other income (expense)	89	(27)	116	NM
Net income	$176,348	$13,957	$162,391	NM
NOI	$119,346	$119,663	$(317)	(0.3)%
Same-Property Cash NOI	$108,823	$106,160	$2,663	2.5 %

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Comparison of the nine months ended September 30, 2018 and 2017, respectively, is set forth below:

	Nine Months Ended September 30,			
	2018	2017	Change	% Change
Revenues:				
Rental income	$523,826	$438,949	$84,877	19.3 %
Interest and other operating income	302	1,271	(969)	(76.2)
Total revenues	524,128	440,220	83,908	19.1
Expenses:				
Rental	165,364	138,874	26,490	19.1
General and administrative	26,281	25,178	1,103	4.4
Transaction	933	5,618	(4,685)	(83.4)
Depreciation and amortization	210,064	172,900	37,164	21.5
Impairment	8,887	5,093	3,794	74.5
Total expenses	411,529	347,663	63,866	18.4
Income before other income (expense)	112,599	92,557	20,042	21.7
Interest income (expense):				
Interest related to derivative financial instruments	297	(827)	1,124	NM
Gain on change in fair value of derivative financial instruments, net	—	884	(884)	NM
Total interest related to derivative financial instruments, including net change in fair value of derivative financial instruments	297	57	240	NM
Interest related to debt	(77,689)	(59,688)	(18,001)	(30.2)
Gain on sale of real estate, net	166,372	3	166,369	NM
Loss on extinguishment of debt, net	(1,092)	(11,192)	10,100	90.2
Income from unconsolidated joint venture	1,405	381	1,024	NM
Other income (expense)	129	(13)	142	NM
Net income	$202,021	$22,105	$179,916	NM
NOI	$358,764	$301,346	$57,418	19.1 %
Same-Property Cash NOI	$233,152	$227,595	$5,557	2.4 %

Rental Income

For the three and nine months ended September 30, 2018 and 2017, respectively, rental income was comprised of the following (in thousands):

	Three Months Ended September 30,			
	2018	2017	Change	% Change
Contractual rental income	$168,169	$169,099	$(930)	(0.5)%
Straight-line rent and amortization of above and (below) market leases	4,252	4,269	(17)	(0.4)
Other rental revenue	2,617	2,063	554	26.9
Total rental income	$175,038	$175,431	$(393)	(0.2)%

	Nine Months Ended September 30,			
	2018	2017	Change	% Change
Contractual rental income	$502,984	$423,696	$79,288	18.7 %
Straight-line rent and amortization of above and (below) market leases	12,727	9,475	3,252	34.3
Other rental revenue	8,115	5,778	2,337	40.4
Total rental income	$523,826	$438,949	$84,877	19.3 %

Contractual rental income, which includes expense reimbursements, decreased $(0.9) million and increased $79.3 million for the three and nine months ended September 30, 2018, respectively, compared to the three and nine months ended September 30, 2017. The decrease and increase were primarily due to $3.5 million and $88.1 million of additional contractual rental income from our 2017 and 2018 acquisitions, and contractual rent increases for the three and nine months ended September 30, 2018, respectively, partially offset by a decrease in contractual rent as a result of buildings we sold during 2017 and 2018.

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Average starting and expiring base rents for new and renewal leases consisted of the following for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands, except in average base rents per square foot of GLA):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
New and renewal leases:				
Average starting base rents	$22.10	$22.34	$23.07	$22.46
Average expiring base rents	21.32	21.94	22.59	22.47
Square feet of GLA	532	745	2,204	2,040

Lease rates can vary across markets, and lease rates that are considered above or below current market rent may change over time. Leases that expired in 2018 had rents that we believed were at market rates. In general, leasing concessions vary depending on lease type and term.

Tenant improvements, leasing commissions and tenant concessions for new and renewal leases consisted of the following for the three and nine months ended September 30, 2018 and 2017, respectively (in per square foot of GLA):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
New leases:				
Tenant improvements	$17.93	$17.18	$22.91	$18.18
Leasing commissions	2.26	1.92	1.95	2.01
Tenant concessions	0.02	1.93	1.85	2.68
Renewal leases:				
Tenant improvements	$6.51	$8.58	$7.73	$7.50
Leasing commissions	0.68	1.02	1.30	1.09
Tenant concessions	0.02	0.80	0.76	1.45

The average term for new and renewal leases executed consisted of the following for the three and nine months ended September 30, 2018 and 2017, respectively (in years):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
New leases	7.6	6.2	7.3	5.8
Renewal leases	4.2	5.5	5.2	5.0

Rental Expenses

For the three months ended September 30, 2018 and 2017, rental expenses attributable to our properties were $55.8 million and $56.3 million, respectively. For the nine months ended September 30, 2018 and 2017, rental expenses attributable to our properties were $165.4 million and $138.9 million, respectively. The decrease and increase in rental expenses were primarily due to $0.5 million and $34.0 million of additional rental expenses associated with our 2017 and 2018 acquisitions for the three and nine months ended September 30, 2018, respectively, partially offset by improved operating efficiencies and a decrease in rental expense as a result of the buildings we sold during 2017 and 2018.

General and Administrative Expenses

For the three months ended September 30, 2018 and 2017, general and administrative expenses were $8.8 million and $8.3 million, respectively. For the nine months ended September 30, 2018 and 2017, general and administrative expenses were $26.3 million and $25.2 million, respectively. These increases were primarily due to an increase in non-cash compensation expense and an overall increase in head count due to the continued growth of the company. General and administrative expenses include such costs as salaries, corporate overhead and professional fees, among other items.

Transaction Expenses

For the three months ended September 30, 2018 and 2017, transaction expenses were $0.3 million. For the nine months ended September 30, 2018 and 2017, transaction expenses were $0.9 million and $5.6 million, respectively. Transaction expenses increased in 2017 due to $4.6 million of non-incremental costs related to the Duke acquisition.

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Depreciation and Amortization Expense

For the three months ended September 30, 2018 and 2017, depreciation and amortization expense was $70.6 million and $70.5 million, respectively. For the nine months ended September 30, 2018 and 2017, depreciation and amortization expense was $210.1 million and $172.9 million, respectively. These increases were associated with our 2017 and 2018 acquisitions, partially offset by buildings we sold during 2017 and 2018.

Impairment

During the three and nine months ended September 30, 2018, we recorded impairment charges of $4.3 million and $8.9 million, respectively, which related to six MOBs located in Tennessee, Texas and South Carolina. During the nine months ended September 30, 2017, we recorded impairment charges of $5.1 million that related to an MOB in our portfolio located in Massachusetts.

Interest Expense and Net Change in Fair Value of Derivative Financial Instruments

Interest expense, excluding the impact of the net change in fair value of derivative financial instruments, decreased by $1.4 million and increased $16.9 million, during the three and nine months ended September 30, 2018, respectively, compared to the three and nine months ended September 30, 2017. The decrease in interest expense during the quarter was primarily due to early payoffs of fixed and variable rate mortgages, including the settlement of three cash flow hedges in connection with the Greenville Disposition. For the nine months ended September 30, 2018, the increase was primarily the result of higher average debt outstanding, as a result of the use of debt to partially fund our investments over the last 12 months with debt and a change in the composition of our debt, driven by an increase in long-term senior unsecured notes, including the $400.0 million and $500.0 million 5-year and 10-year senior unsecured notes issued in June 2017 at a coupon rate of 2.95% per annum and 3.75% per annum, respectively.

To achieve our objectives, we borrow at both fixed and variable rates. From time to time, we also enter into derivative financial instruments, such as interest rate swaps, in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes. Derivatives not designated as hedges are not speculative and are used to manage our exposure to interest rate movements.

Gain on Sale of Real Estate

For the three and nine months ended September 30, 2018, we realized a net gain on sale of real estate of $166.4 million. For the nine months ended September 30, 2017, we realized a net gain on sale of real estate of $3,000. These increases were primarily the result of the Greenville Disposition. See Note 4 - Impairment and Dispositions for more detail on the Greenville Disposition.

Gain or Loss on Extinguishment of Debt

For the three and nine months ended September 30, 2018, we realized a net loss on extinguishment of debt of $1.1 million primarily due to prepayment fees we incurred in connection with the early payoffs of fixed and variable rate mortgages, including the settlement of three cash flow hedges in connection with the Greenville Disposition. For the three and nine months ended September 30, 2017, we realized a net loss on extinguishment of debt of $0.8 million and $11.2 million, respectively, due to fees we incurred in connection with the execution and our termination of a bridge loan facility we entered into as part of the Duke acquisition.

Net Income or Loss

Net income increased $162.4 million to $176.3 million for the three months ended September 30, 2018, compared to the three months ended September 30, 2017. Net income increased $179.9 million to $202.0 million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. These increases were primarily the result of continued growth in our operations and improved operating efficiencies.

NOI and Same-Property Cash NOI

NOI decreased $(0.3) million to $119.3 million for the three months ended September 30, 2018, compared to the three months ended September 30, 2017. NOI increased $57.4 million to $358.8 million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. The decrease and increase were primarily due to $2.8 million and $58.7 million of additional NOI from our 2017 and 2018 acquisitions for the three and nine months ended September 30, 2018, respectively, partially offset by a decrease in NOI as a result of the buildings we sold during 2017 and 2018 and a reduction in straight-line rent from properties we owned more than a year.

Same-Property Cash NOI increased $2.7 million to $108.8 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017. Same-Property Cash NOI increased $5.6 million to $233.2 million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. These increases were primarily the result of rent escalations, an increase in average occupancy, and improved operating efficiencies.

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Non-GAAP Financial Measures

FFO and Normalized FFO

We compute FFO in accordance with the current standards established by NAREIT. NAREIT defines FFO as net income or loss attributable to common stockholders/unitholders (computed in accordance with GAAP), excluding gains or losses from sales of real estate property and impairment write-downs of depreciable assets, plus depreciation and amortization related to investments in real estate, and after adjustments for unconsolidated partnerships and joint ventures. We present this non-GAAP financial measure because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs. Historical cost accounting assumes that the value of real estate assets diminishes ratably over time. Since real estate values have historically risen or fallen based on market conditions, many industry investors have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Because FFO excludes depreciation and amortization unique to real estate, among other items, it provides a perspective not immediately apparent from net income or loss attributable to common stockholders/unitholders.

We also compute Normalized FFO, which excludes from FFO: (i) transaction expenses; (ii) gain or loss on change in fair value of derivative financial instruments; (iii) gain or loss on extinguishment of debt; (iv) noncontrolling income or loss from OP Units included in diluted shares (only applicable to the Company); and (v) other normalizing items, which include items that are unusual and infrequent in nature. We present this non-GAAP financial measure because it allows for the comparison of our operating performance to other REITs and between periods on a consistent basis. Our methodology for calculating Normalized FFO may be different from the methods utilized by other REITs and, accordingly, may not be comparable to other REITs. Normalized FFO should not be considered as an alternative to net income or loss attributable to common stockholders/unitholders (computed in accordance with GAAP) as an indicator of our financial performance, nor is it indicative of cash available to fund cash needs. Normalized FFO should be reviewed in connection with other GAAP measurements.

The amounts included in the calculation of FFO and Normalized FFO are generally the same for HTALP and HTA, except for net income or loss attributable to common stockholders/unitholders, noncontrolling income or loss from OP Units included in diluted shares (only applicable to the Company) and the weighted average shares of our common stock or HTALP OP Units outstanding.

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The following is the reconciliation of HTA's FFO and Normalized FFO to net income attributable to common stockholders for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income attributable to common stockholders	$172,986	$13,763	$198,134	$21,390
Depreciation and amortization expense related to investments in real estate	70,004	70,021	208,445	171,678
Gain on sale of real estate, net	(166,372)	—	(166,372)	(3)
Impairment	4,281	—	8,887	5,093
Proportionate share of joint venture depreciation and amortization	463	464	1,277	506
FFO attributable to common stockholders	$81,362	$84,248	$250,371	$198,664
Transaction expenses	346	261	789	975
Gain on change in fair value of derivative financial instruments, net	—	—	—	(884)
Loss on extinguishment of debt, net	1,092	774	1,092	11,192
Noncontrolling income from partnership units included in diluted shares	3,344	166	3,822	635
Other normalizing items, net [(1)]	—	—	144	4,643
Normalized FFO attributable to common stockholders	$86,144	$85,449	$256,218	$215,225
Net income attributable to common stockholders per diluted share	$0.82	$0.07	$0.94	$0.12
FFO adjustments per diluted share, net	(0.44)	0.34	0.25	1.00
FFO attributable to common stockholders per diluted share	$0.38	$0.41	$1.19	$1.12
Normalized FFO adjustments per diluted share, net	0.03	0.01	0.03	0.09
Normalized FFO attributable to common stockholders per diluted share	$0.41	$0.42	$1.22	$1.21
Weighted average diluted common shares outstanding	211,444	204,795	209,968	177,410

(1) For the nine months ended September 30, 2017, other normalizing items included $4.6 million of non-incremental costs related to the Duke acquisition that were included in transaction expenses on our condensed consolidated statements of operations.

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The following is the reconciliation of HTALP's FFO and Normalized FFO to net income attributable to common unitholders for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands, except per unit data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income attributable to common unitholders	$176,330	$13,929	$201,956	$22,025
Depreciation and amortization expense related to investments in real estate	70,004	70,021	208,445	171,678
Gain on sale of real estate, net	(166,372)	—	(166,372)	(3)
Impairment	4,281	—	8,887	5,093
Proportionate share of joint venture depreciation and amortization	463	464	1,277	506
FFO attributable to common unitholders	$84,706	$84,414	$254,193	$199,299
Transaction expenses	346	261	789	975
Gain on change in fair value of derivative financial instruments, net	—	—	—	(884)
Loss on extinguishment of debt, net	1,092	774	1,092	11,192
Other normalizing items, net (1)	—	—	144	4,643
Normalized FFO attributable to common unitholders	$86,144	$85,449	$256,218	$215,225
Net income attributable to common unitholders per diluted unit	$0.83	$0.07	$0.96	$0.12
FFO adjustments per diluted unit, net	(0.43)	0.34	0.25	1.00
FFO attributable to common unitholders per diluted unit	$0.40	$0.41	$1.21	$1.12
Normalized FFO adjustments per diluted unit, net	0.01	0.01	0.01	0.09
Normalized FFO attributable to common unitholders per diluted unit	$0.41	$0.42	$1.22	$1.21
Weighted average diluted common units outstanding	211,444	204,795	209,968	177,410

(1) For the nine months ended September 30, 2017, other normalizing items included $4.6 million of non-incremental costs related to the Duke acquisition that were included in transaction expenses on our condensed consolidated statements of operations.

NOI, Cash NOI and Same-Property Cash NOI

NOI is a non-GAAP financial measure that is defined as net income or loss (computed in accordance with GAAP) before: (i) general and administrative expenses; (ii) transaction expenses; (iii) depreciation and amortization expense; (iv) impairment; (v) interest expense and net change in fair value of derivative financial instruments; (vi) gain or loss on sales of real estate; (vii) gain or loss on extinguishment of debt; (viii) income or loss from unconsolidated joint venture; and (ix) other income or expense. We believe that NOI provides an accurate measure of the operating performance of our operating assets because NOI excludes certain items that are not associated with the management of our properties. Additionally, we believe that NOI is a widely accepted measure of comparative operating performance of REITs. However, our use of the term NOI may not be comparable to that of other REITs as they may have different methodologies for computing this amount. NOI should not be considered as an alternative to net income or loss (computed in accordance with GAAP) as an indicator of our financial performance. NOI should be reviewed in connection with other GAAP measurements.

Cash NOI is a non-GAAP financial measure which excludes from NOI: (i) straight-line rent adjustments; (ii) amortization of below and above market leases/leasehold interests; (iii) notes receivable interest income; and (iv) other GAAP adjustments. Contractual base rent, contractual rent increases, contractual rent concessions and changes in occupancy or lease rates upon commencement and expiration of leases are a primary driver of our revenue performance. We believe that Cash NOI, which removes the impact of straight-line rent adjustments, provides another measurement of the operating performance of our operating assets. Additionally, we believe that Cash NOI is a widely accepted measure of comparative operating performance of REITs. However, our use of the term Cash NOI may not be comparable to that of other REITs as they may have different methodologies for computing this amount. Cash NOI should not be considered as an alternative to net income or loss (computed in accordance with GAAP) as an indicator of our financial performance. Cash NOI should be reviewed in connection with other GAAP measurements.

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To facilitate the comparison of Cash NOI between periods, we calculate comparable amounts for a subset of our owned and operational properties referred to as "Same-Property". Same-Property Cash NOI excludes (i) properties which have not been owned and operated by us during the entire span of all periods presented and disposed properties, (ii) our share of unconsolidated joint ventures, (iii) development, redevelopment and land parcels, (iv) properties intended for disposition in the near term which have (a) been approved by the Board of Directors, (b) is actively marketed for sale, and (c) an offer has been received at prices we would transact and the sales process is ongoing, and (v) certain non-routine items. Same-Property Cash NOI should not be considered as an alternative to net income or loss (computed in accordance with GAAP) as an indicator of our financial performance. Same-Property Cash NOI should be reviewed in connection with other GAAP measurements.

The following is the reconciliation of HTA's and HTALP's NOI, Cash NOI and Same-Property Cash NOI to net income for the three and nine months ended September 30, 2018 and 2017, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$176,348	$13,957	$202,021	$22,105
General and administrative expenses	8,770	8,283	26,281	25,178
Transaction expenses (1)	346	261	933	5,618
Depreciation and amortization expense	70,568	70,491	210,064	172,900
Impairment	4,281	—	8,887	5,093
Interest expense and net change in fair value of derivative financial instruments	24,834	26,188	77,392	59,631
Gain on sale of real estate, net	(166,372)	—	(166,372)	(3)
Loss on extinguishment of debt, net	1,092	774	1,092	11,192
Income from unconsolidated joint venture	(432)	(318)	(1,405)	(381)
Other (income) expense	(89)	27	(129)	13
NOI	$119,346	$119,663	$358,764	$301,346
Straight-line rent adjustments, net	(2,746)	(3,009)	(8,289)	(5,834)
Amortization of (below) and above market leases/leasehold interests, net	(65)	214	190	246
Notes receivable interest income and other GAAP adjustments	(33)	(588)	(218)	(1,163)
Cash NOI	$116,502	$116,280	$350,447	$294,595
Acquisitions not owned/operated for all periods presented and disposed properties Cash NOI	(6,065)	(7,337)	(112,557)	(59,865)
Redevelopment Cash NOI	(607)	(1,540)	(1,923)	(4,072)
Intended for sale Cash NOI	(1,007)	(1,243)	(2,815)	(3,063)
Same-Property Cash NOI (2)	$108,823	$106,160	$233,152	$227,595

(1) For the nine months ended September 30, 2017, transaction costs included $4.6 million of non-incremental costs related to the Duke acquisition.

(2) Same-Property includes 403 and 317 buildings for the three and nine months ended September 30, 2018 and 2017, respectively.

Liquidity and Capital Resources

Our primary sources of cash include: (i) cash flow from operations; (ii) borrowings under our unsecured revolving credit facility; (iii) net proceeds from the issuances of debt and equity securities; and (iv) proceeds from our dispositions. During the next 12 months our primary uses of cash are expected to include: (a) the funding of acquisitions of MOBs, development properties and other facilities that serve the healthcare industry; (b) capital expenditures; (c) the payment of operating expenses; (d) debt service payments, including principal payments; and (e) the payment of dividends to our stockholders. We anticipate cash flow from operations, restricted cash and reserve accounts and our unsecured revolving credit facility, if needed, will be sufficient to fund our operating expenses, capital expenditures and dividends to stockholders. Investments and maturing indebtedness may require funds from the issuance of debt and/or equity securities or proceeds from sales of real estate.

As of September 30, 2018, we had liquidity of $1.2 billion, including $994.5 million available under our unsecured revolving credit facility (which includes the impact of $5.5 million of outstanding letters of credit) and $225.5 million of cash and cash equivalents.

In addition, we had unencumbered assets with a gross book value of $6.4 billion. The unencumbered properties may be used as collateral to secure additional financings in future periods or refinance our current debt as it becomes due. Our ability to raise funds from future debt and equity issuances is dependent on our investment grade credit ratings, general economic and market conditions and our operating performance.

When we acquire a property, we prepare a capital plan that contemplates the estimated capital needs of that investment. In addition to operating expenses, capital needs may also include costs of refurbishment, tenant improvements or other major capital expenditures. The capital plan for each investment will be adjusted through ongoing, regular reviews of our portfolio or as necessary to respond to unanticipated additional capital needs. As of September 30, 2018, we estimate that our expenditures for capital improvements for the remainder of 2018 will range from $20.0 million to $25.0 million depending on leasing activity. As of September 30, 2018, we had $4.1 million of restricted cash and reserve accounts for such capital expenditures, in addition to the availability under our unsecured revolving credit facility and on hand cash and cash equivalents. We cannot provide assurance, however, that we will not exceed these estimated expenditure levels.

If we experience lower occupancy levels, reduced rental rates, reduced revenues as a result of asset sales, or increased capital expenditures and leasing costs compared to historical levels due to competitive market conditions for new and renewal leases, the effect would be a reduction of net cash provided by operating activities. If such a reduction of net cash provided by operating activities is realized, we may have a cash flow deficit in subsequent periods. Our estimate of net cash available is based on various assumptions which are difficult to predict, including the levels of our leasing activity and related leasing costs. Any changes in these assumptions could impact our financial results and our ability to fund working capital and unanticipated cash needs.

Cash Flows

The following is a summary of our cash flows for the nine months ended September 30, 2018 and 2017, respectively (in thousands):

	Nine Months Ended September 30,		
	2018	2017	Change
Cash, cash equivalents and restricted cash - beginning of period (1)	$118,560	$25,045	$93,515
Net cash provided by operating activities	240,751	228,542	12,209
Net cash provided by (used in) investing activities (1)	194,846	(2,483,816)	2,678,662
Net cash (used in) provided by financing activities	(314,000)	2,257,108	(2,571,108)
Cash, cash equivalents and restricted cash - end of period (1)	$240,157	$26,879	$213,278

(1) The amounts for 2017 differ from amounts previously reported in our Quarterly Report for the nine months ended September 30, 2017, as a result of the retrospective presentation of the early adoption of ASU 2016-18 in our 2017 Annual Report on Form 10-K as of January 1, 2017. Additionally, the presentation of beginning of period and end of period cash now includes restricted cash as a result of the adoption of ASU 2016-18.

Net cash provided by operating activities increased in 2018 primarily due to the impact of our 2017 and 2018 acquisitions, contractual rent increases and improved operating efficiencies, partially offset by our 2017 and 2018 dispositions. We anticipate cash flows from operating activities to increase as a result of the above items and continued leasing activity in our existing portfolio.

For the nine months ended September 30, 2018, net cash provided by investing activities primarily related to proceeds from the sale of real estate of $302.4 million, which was partially offset by capital expenditures of $61.1 million, development of real estate of $29.6 million, and investments in real estate of $17.4 million. For the nine months ended September 30, 2017, net cash used in investing activities primarily related to the investment in real estate of $2.4 billion, investment in unconsolidated joint venture of $68.8 million, and capital expenditures of $43.0 million, which

was partially offset by proceeds from the sale of real estate of $4.7 million.
For the nine months ended September 30, 2018, net cash used in financing activities primarily related to dividends paid to holders of our common stock of $188.4 million and payments on our secured mortgage loans of $173.2 million, which was partially offset by net proceeds of shares of common stock issued of $72.8 million. For the nine months ended September 30, 2017, net cash provided by financing activities primarily related to the net proceeds of shares of common stock issued of $1.6 billion and net proceeds on the issuance of senior notes of $900.0 million, partially offset by dividends paid to holders of our common stock of $145.9 million, and payments on our secured mortgage loans of $75.4 million.
Dividends
The amount of dividends we pay to our stockholders is determined by our Board of Directors, in their sole discretion, and is dependent on a number of factors, including funds available, our financial condition, capital expenditure requirements and annual dividend distribution requirements needed to maintain our status as a REIT under the Internal Revenue Code of 1986, as amended. We have paid monthly or quarterly dividends since February 2007, and if our investments produce sufficient cash flow, we expect to continue to pay dividends to our stockholders. Because our cash available for dividend distributions in any year may be less than 90% of our taxable income for the year, we may obtain the necessary funds through borrowings, issuing new securities or selling assets to pay out enough of our taxable income to satisfy our dividend distribution requirement. Our organizational documents do not establish a limit on dividends that may constitute a return of capital for federal income tax purposes. The dividend we pay to our stockholders is equal to the distributions received from HTALP in accordance with the terms of HTALP's partnership agreement. It is our intention to continue to pay dividends. However, our Board of Directors may reduce our dividend rate and we cannot guarantee the timing and amount of dividends that we may pay in the future, if any.
For the nine months ended September 30, 2018, we paid cash dividends of $188.4 million on our common stock. In October 2018, we paid cash dividends on our common stock of $64.2 million for the quarter ended September 30, 2018. On October 25, 2018, our Board of Directors announced a quarterly dividend of $0.310 per share of common stock and per OP Unit to be paid on January 9, 2019 to stockholders of record of our common stock and holders of our OP Units on January 2, 2019.
Financing
We have historically maintained a low leveraged balance sheet and intend to continue to maintain this structure in the long term. However, our total leverage may fluctuate on a short-term basis as we execute our business strategy. As of September 30, 2018, our leverage ratio, measured by debt less cash and cash equivalents to total capitalization, was 29.7%.
As of September 30, 2018, we had debt outstanding of $2.6 billion and the weighted average interest rate therein was 3.49% per annum, inclusive of the impact of our interest rate swaps. The following is a summary of our unsecured and secured debt. See Note 7 - Debt in the accompanying condensed consolidated financial statements for a further discussion of our debt.
Unsecured Revolving Credit Facility
In 2017, HTALP entered into an amended and restated $1.3 billion Unsecured Credit Agreement which increased the amount available under the unsecured revolving credit facility to $1.0 billion. As of September 30, 2018, $994.5 million was available on our $1.0 billion unsecured revolving credit facility. Our unsecured revolving credit facility matures in June 2022.
Unsecured Term Loans
As of September 30, 2018, we had $500.0 million of unsecured term loans outstanding, comprised of $300.0 million under our Unsecured Credit Agreement maturing in 2023, and $200.0 million under our unsecured term loan maturing in 2024.
Unsecured Senior Notes
As of September 30, 2018, we had $1.85 billion of unsecured senior notes outstanding, comprised of $300.0 million maturing in 2021, $400.0 million maturing in 2022, $300.0 million maturing in 2023, $350.0 million maturing in 2026, and $500.0 million maturing in 2027.
Fixed and Variable Rate Mortgages
During the nine months ended September 30, 2018, we made payments on our fixed and variable rate mortgages of $173.2 million and have $1.1 million of principal payments due during the remainder of 2018.

Commitments and Contingencies

There have been no material changes from the commitments and contingencies previously disclosed in our 2017 Annual Report on Form 10-K.

Debt Service Requirements

We are required by the terms of our applicable loan agreements to meet certain financial covenants, such as minimum net worth and liquidity, and reporting requirements, among others. As of September 30, 2018, we believe that we were in compliance with all such covenants and we are not aware of any covenants that it is reasonably likely that we would not be able to meet in accordance with our loan agreements.

Off-Balance Sheet Arrangements

As of and during the nine months ended September 30, 2018, we had no material off-balance sheet arrangements that have had or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Inflation

We are exposed to inflation risk as income from future long-term leases is the primary source of our cash flows from operations. There are provisions in the majority of our tenant leases that protect us from the impact of normal inflation. These provisions include rent escalations, reimbursement billings for operating expense pass-through charges and real estate tax and insurance reimbursements on a per square foot allowance. However, due to the long-term nature of our leases, among other factors, the leases may not reset frequently enough to cover inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from the quantitative and qualitative disclosures about market risk previously disclosed in our 2017 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Healthcare Trust of America, Inc.

HTA’s management is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including HTA’s Chief Executive Officer (as the principal executive officer) and Chief Financial Officer (as the principal financial officer and principal accounting officer), to allow timely decisions regarding required disclosures.

As of September 30, 2018, an evaluation was conducted by HTA under the supervision and with the participation of its management, including HTA’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, HTA’s Chief Executive Officer and Chief Financial Officer each concluded that HTA’s disclosure controls and procedures were effective as of September 30, 2018.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably believed to be likely to materially affect, our internal control over financial reporting.

October 26, 2018

Healthcare Trust of America Holdings, LP

HTALP’s management is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including HTA’s Chief Executive Officer (as the principal executive officer) and Chief Financial Officer (as the principal financial officer and principal accounting officer), to allow timely decisions regarding required disclosures.

As of September 30, 2018, an evaluation was conducted by HTALP under the supervision and with the participation of its management, including HTA’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, HTA’s Chief Executive Officer and Chief Financial Officer, on behalf of HTA in its capacity as general partner of HTALP, each concluded that HTALP’s disclosure controls and procedures were effective as of

September 30, 2018.
There were no changes in HTALP's internal control over financial reporting that occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably believed to be likely to materially affect, HTALP's internal control over financial reporting.
October 26, 2018

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to claims and litigation arising in the ordinary course of business. We do not believe any liability from any reasonably foreseeable disposition of such claims and litigation, individually or in the aggregate, would have a material adverse effect on our accompanying condensed consolidated financial statements.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our 2017 Annual Report on Form 10-K.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the three months ended September 30, 2018, we repurchased shares of our common stock as follows:

Period	Total Number of Shares Purchased (1) (2)	Average Price Paid per Share (1) (2)	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
July 1, 2018 to July 31, 2018	4,983	$ 26.75	—	—
August 1, 2018 to August 31, 2018	9	28.60	—	—
September 1, 2018 to September 30, 2018	295,000	26.24	—	(3)

(1) Purchases mainly represent shares withheld to satisfy withholding obligations on the vesting of restricted shares. The price paid per share was the then closing price of our common stock on the NYSE.

(2) For each share of common stock redeemed by HTA, HTALP redeems a corresponding number of OP Units in the HTALP operating partnership. Therefore, the OP Units in the HTALP operating partnership repurchased by HTALP are the same as the shares of common stock repurchased by HTA as shown above.

(3) In August 2018, our Board of Directors approved a stock repurchase plan with a share repurchase authorization of up to $300.0 million of our common stock. During the three months ended September 2018, we repurchased 295,000 shares of our common stock, at an average price of $26.24 per share, for an aggregate amount of approximately $7.7 million.

Item 6. Exhibits

The exhibits listed on the Exhibit Index (following the signatures section of this Quarterly Report) are included, and incorporated by reference, in this Quarterly Report.

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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.

Healthcare Trust of America, Inc.

By:	/s/ Scott D. Peters	Chief Executive Officer, President and Chairman
	Scott D. Peters	(Principal Executive Officer)
Date:	October 26, 2018	
By:	/s/ Robert A. Milligan	Chief Financial Officer
	Robert A. Milligan	(Principal Financial Officer and Principal Accounting Officer)
Date:	October 26, 2018	

Healthcare Trust of America Holdings, LP

By: Healthcare Trust of America, Inc.,
its General Partner

By:	/s/ Scott D. Peters	Chief Executive Officer, President and Chairman
	Scott D. Peters	(Principal Executive Officer)
Date:	October 26, 2018	
By:	/s/ Robert A. Milligan	Chief Financial Officer
	Robert A. Milligan	(Principal Financial Officer and Principal Accounting Officer)
Date:	October 26, 2018	

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EXHIBIT INDEX

Pursuant to Item 601(a)(2) of Regulation S-K, this Exhibit Index immediately precedes the exhibits.

The following exhibits are included, or incorporated by reference, in this Quarterly Report for the quarter ended September 30, 2018 (and are numbered in accordance with Item 601 of Regulation S-K).

31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Healthcare Trust of America, Inc.
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Healthcare Trust of America, Inc.
31.3*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Healthcare Trust of America Holdings, LP.
31.4*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Healthcare Trust of America Holdings, LP.
32.1**	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 for Healthcare Trust of America Inc.
32.2**	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 for Healthcare Trust of America, Inc.
32.3**	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 for Healthcare Trust of America Holdings, LP.
32.4**	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 for Healthcare Trust of America Holdings, LP.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

*	Filed herewith.
**	Furnished herewith.