NATURAL RESOURCE PARTNERS LP
Form 10-Q
May 06, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

Commission file number: 001-31465

NATURAL RESOURCE PARTNERS L.P.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	35-2164875 (I.R.S. Employer Identification No.)

601 Jefferson Street, Suite 3600
Houston, Texas 77002
(Address of principal executive offices)

(Zip Code)
(713) 751-7507
(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 o 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 definition of accelerated filer , large accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

þ Large Accelerated Filer	o Accelerated Filer	o Non-accelerated Filer (Do not check if a smaller reporting company)	o Smaller Reporting Company

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

At May 6, 2010 there were 74,027,836 Common Units outstanding.

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Forward-Looking Statements

Statements included in this Form 10-Q are forward-looking statements. In addition, we and our representatives may from time to time make other oral or written statements that are also forward-looking statements.

Such forward-looking statements include, among other things, statements regarding capital expenditures, acquisitions and dispositions, expected commencement dates of mining, projected quantities of future production by our lessees and projected demand for or supply of coal and aggregates that will affect sales levels, prices and royalties and other revenues realized by us.

These forward-looking statements are made based upon management s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

You should not put undue reliance on any forward-looking statements. Please read Item 1A. Risk Factors in this Form 10-Q and in our Form 10-K/A for the year ended December 31, 2009 for important factors that could cause our actual results of operations or our actual financial condition to differ.

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Part I. Financial Information
Item 1. Financial Statements

NATURAL RESOURCE PARTNERS L.P.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 62,856	$ 82,634
Accounts receivable, net of allowance for doubtful accounts	28,268	27,141
Accounts receivable affiliate	5,334	4,342
Other	771	930
Total current assets	97,229	115,047
Land	24,343	24,343
Plant and equipment, net	62,274	64,351
Coal and other mineral rights, net	1,193,908	1,151,835
Intangible assets, net	163,794	164,554
Loan financing costs, net	2,777	2,891
Other assets, net	508	569
Total assets	$ 1,544,833	$ 1,523,590
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities:		
Accounts payable and accrued liabilities	$ 681	$ 914
Accounts payable affiliates	179	179
Obligation related to acquisition	4,477	2,969
Current portion of long-term debt	32,235	32,235
Accrued incentive plan expenses current portion	3,851	4,627
Property, franchise and other taxes payable	5,112	6,164
Accrued interest	3,164	10,300
Total current liabilities	49,699	57,388
Deferred revenue	80,031	67,018
Accrued incentive plan expenses	5,626	7,371
Long-term debt	657,395	626,587
Partners capital:		
Common units outstanding: (69,451,136)	726,797	747,437
General partner s interest	12,886	13,409
Holders of incentive distribution rights	12,983	4,977
Accumulated other comprehensive loss	(584)	(597)

Total partners capital	752,082	765,226
Total liabilities and partners capital	$ 1,544,833	$ 1,523,590

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

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NATURAL RESOURCE PARTNERS L.P.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per unit data)

	Three Months Ended March 31, 2010 (Unaudited)	Three Months Ended March 31, 2009 (Unaudited)
Revenues:		
Coal royalties	$ 47,161	$ 52,607
Aggregate royalties	891	1,650
Coal processing fees	1,644	1,900
Transportation fees	2,775	2,096
Oil and gas royalties	1,099	1,493
Property taxes	2,651	3,211
Minimums recognized as revenue	3,374	223
Override royalties	2,967	2,548
Other	957	1,005
Total revenues	63,519	66,733
Operating costs and expenses:		
Depreciation, depletion and amortization	11,368	13,078
General and administrative	6,548	7,506
Property, franchise and other taxes	3,734	3,975
Transportation costs	265	268
Coal royalty and override payments	692	489
Total operating costs and expenses	22,607	25,316
Income from operations	40,912	41,417
Other income (expense):		
Interest expense	(10,729)	(8,079)
Interest income	8	82
Net income	$ 30,191	$ 33,420
Net income attributable to:		
General partner	$ 344	$ 441
Holders of incentive distribution rights	$ 12,983	$ 11,381
Limited partners	$ 16,864	$ 21,598
Basic and diluted net income per limited partner unit	$ 0.24	$ 0.33
Weighted average number of units outstanding	69,451	64,891

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

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NATURAL RESOURCE PARTNERS L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2010	2009
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 30,191	$ 33,420
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	11,368	13,078
Non-cash interest charge, net	150	882
Change in operating assets and liabilities:		
Accounts receivable	(2,119)	(3,463)
Other assets	220	267
Accounts payable and accrued liabilities	(233)	(395)
Accrued interest	(7,136)	(3,145)
Deferred revenue	13,013	5,512
Accrued incentive plan expenses	(2,521)	(466)
Property, franchise and other taxes payable	(1,052)	(2,138)
Net cash provided by operating activities	41,881	43,552
Cash flows from investing activities:		
Acquisition of land, coal and other mineral rights	(46,150)	(95,641)
Acquisition or construction of plant and equipment		(1,157)
Net cash used in investing activities	(46,150)	(96,798)
Cash flows from financing activities:		
Proceeds from loans	46,000	303,000
Deferred financing costs		(661)
Repayment of loans	(15,192)	(151,192)
Retirement of obligation related to acquisitions	(2,969)	(40,000)
Distributions to partners	(43,348)	(46,720)
Net cash (used in) provided by financing activities	(15,509)	64,427
Net increase (decrease) in cash and cash equivalents	(19,778)	11,181
Cash and cash equivalents at beginning of period	82,634	89,928
Cash and cash equivalents at end of period	$ 62,856	$ 101,109
Supplemental cash flow information:		
Cash paid during the period for interest	$ 17,700	$ 10,280
Non-cash financing activities:		

Obligation related to purchase of coal reserves and infrastructure	$ 4,477	$ 59,220

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

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NATURAL RESOURCE PARTNERS L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Organization

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for future periods.

You should refer to the information contained in the footnotes included in Natural Resource Partners L.P. s 2009 Annual Report on Form 10-K/A in connection with the reading of these unaudited interim consolidated financial statements.

The Partnership engages principally in the business of owning, managing and leasing coal properties in the three major coal-producing regions of the United States: Appalachia, the Illinois Basin and the Western United States. The Partnership does not operate any mines. The Partnership leases coal reserves through its wholly owned subsidiary, NRP (Operating) LLC, (NRP Operating), to experienced mine operators under long-term leases that grant the operators the right to mine the Partnership s coal reserves in exchange for royalty payments. The Partnership s lessees are generally required to make payments to the Partnership based on the higher of a percentage of the gross sales price or a fixed royalty per ton of coal sold, in addition to a minimum payment.

In addition, the Partnership owns coal transportation and preparation equipment, aggregate reserves, other coal related rights and oil and gas properties on which it earns revenue.

The general partner of the Partnership is NRP (GP) LP, a Delaware limited partnership, whose general partner is GP Natural Resource Partners LLC, a Delaware limited liability company.

2. Significant Accounting Policies Update

Reclassification

Certain reclassifications have been made to the prior year s financial statements. Immaterial amounts relating to the AzConAgg and Gatling Ohio acquisitions have been reclassified between various assets based upon more information.

Recent Accounting Pronouncements

In January 2010, the FASB amended fair value disclosure requirements. This amendment requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. See Note 9. Fair Value Measurements for the definition of Level 1 and Level 2 measurements. The amendment also requires a reporting entity to present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs. This amendment is effective for fiscal years beginning after December 15, 2009 and interim periods within those fiscal years. The Partnership applied the effective provisions of this standard update in preparing its disclosures, and the adoption of the standard did not have a material effect on such disclosures.

In June 2009, the FASB issued a new standard amending previous consolidation of variable interest entities guidance. This amended guidance requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it controlling financial interest in a variable interest entity. This amendment is effective for fiscal years beginning after November 15, 2009 and interim periods within those fiscal years. The Partnership does not expect this adoption to have a material impact on the financial statements.

In February 2010, the FASB amended the subsequent events standard, removing the requirement for an SEC filer to disclose a date in issued and revised financial statements. The FASB added that revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The Partnership adopted this amendment for the quarter ended March 31, 2010. The adoption did not have a material impact on the Partnership s disclosures.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Partnership s financial position, results of operations and cash flows.

3. Recent Acquisitions

Northgate-Thayer. In March 2010, the Partnership acquired approximately 100 acres of mineral and surface rights related to dolomite reserves in White County, Indiana from a local operator for a purchase price of $7.5 million. As of March 31, 2010 the Partnership had funded $3.0 million of the acquisition, and the remaining payments are expected to be paid over the next three months upon completion of certain development milestones.

Massey-Override. In March 2010, the Partnership acquired from Massey Energy subsidiaries overriding royalty interests in coal reserves located in southern West Virginia and eastern Kentucky. Total consideration for this purchase was $3.0 million.

AzConAgg. In December 2009, the Partnership acquired approximately 230 acres of mineral and surface rights related to sand and gravel reserves in southern Arizona from a local operator for $3.75 million.

Colt. In September 2009, the Partnership signed a definitive agreement to acquire approximately 200 million tons of coal reserves related to the Deer Run Mine in Illinois from Colt LLC, an affiliate of the Cline Group, through eight separate transactions for a total purchase price of $255 million. In January 2010, the Partnership closed the second transaction for $40.0 million and acquired approximately 19.5 million tons of reserves. As of March 31, 2010, the Partnership had acquired approximately 22.8 million tons of reserves associated with the initial production from the mine for approximately $50 million. Future closings anticipated through 2012 will be associated with completion of certain milestones related to the new mine s construction.

Blue Star. In July 2009, the Partnership acquired approximately 121 acres of limestone reserves in Wise County, Texas from Blue Star Materials, LLC for a purchase price of $24 million.

Gatling Ohio. In May 2009, the Partnership completed the purchase of the membership interests in two companies from Adena Minerals, LLC, an affiliate of the Cline Group. The companies own 51.5 million tons of coal reserves and infrastructure assets at Cline s Yellowbush Mine located on the Ohio River in Meigs County, Ohio. The Partnership issued 4,560,000 common units to Adena Minerals in connection with this acquisition. In addition, the general partner of Natural Resource Partners granted Adena Minerals an additional nine percent interest in the general partner as well as additional incentive distribution rights.

Massey- Jewell Smokeless. In March 2009, the Partnership acquired from Lauren Land Company, a subsidiary of Massey Energy, the remaining four-fifths interest in coal reserves located in Buchanan County, Virginia in which the Partnership previously held a one-fifth interest. Total consideration for this purchase was $12.5 million.

Macoupin. In January 2009, the Partnership acquired approximately 82 million tons of coal reserves and infrastructure assets related to the Shay No. 1 mine in Macoupin County, Illinois for $143.7 million from Macoupin Energy, LLC, an affiliate of the Cline Group.

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4. Plant and Equipment

The Partnership s plant and equipment consist of the following:

	March 31, 2010	December 31, 2009
	(In thousands) (Unaudited)	
Plant and equipment at cost	$ 81,866	$ 81,866
Accumulated depreciation	(19,592)	(17,515)
Net book value	$ 62,274	$ 64,351

	Three months ended March 31, 2010	2009
	(In thousands) (Unaudited)	
Total depreciation expense on plant and equipment	$ 2,077	$ 1,887

5. Coal and Other Mineral Rights

The Partnership s coal and other mineral rights consist of the following:

	March 31, 2010	December 31, 2009
	(In thousands) (Unaudited)	
Coal and other mineral rights	$ 1,511,587	$ 1,460,984
Less accumulated depletion and amortization	(317,679)	(309,149)
Net book value	$ 1,193,908	$ 1,151,835

	Three months ended March 31, 2010	2009
	(In thousands) (Unaudited)	
Total depletion and amortization expense on coal and other mineral rights	$ 8,530	$ 10,600

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6. Intangible Assets

In 2009, the Partnership identified $65.1 million of above market contracts relating to the AzConAgg, Gatling Ohio and Macoupin acquisitions. Amounts recorded as intangible assets along with the balances and accumulated amortization at March 31, 2010 and December 31, 2009 are reflected in the table below:

	March 31, 2010	December 31, 2009
	(In thousands) (Unaudited)	
Above market contracts	$ 172,706	$ 172,706
Less accumulated amortization	(8,912)	(8,152)
Net book value	$ 163,794	$ 164,554

	For the three months ended March 31, 2010	2009
	(In thousands) (Unaudited)	
Total amortization expense on intangible assets	$ 760	$ 591

Amortization expense is based upon the production and sales of coal from acquired reserves and the number of tons of coal transported using the transportation infrastructure. The estimates of expense for the periods as indicated below are based on current mining plans and are subject to revision as those plans change in future periods.

Estimated amortization expense (In thousands)	
For remainder of year ended December 31, 2010	$ 3,904
For year ended December 31, 2011	5,330
For year ended December 31, 2012	5,098
For year ended December 31, 2013	5,098
For year ended December 31, 2014	5,098

7. Long-Term Debt

Long-term debt consists of the following:

	March 31, 2010	December 31, 2009
	(In thousands)	
	(Unaudited)	
$300 million floating rate revolving credit facility, due March 2012	$ 74,000	$ 28,000
5.55% senior notes, with semi-annual interest payments in June and December, maturing June 2013	35,000	35,000
4.91% senior notes, with semi-annual interest payments in June and December, with annual principal payments in June, maturing in June 2018	43,700	43,700
8.38% senior notes, with semi-annual interest payments in March and September, with scheduled principal payments beginning March 2013, maturing in March 2019	150,000	150,000
5.05% senior notes, with semi-annual interest payments in January and July, with annual principal payments in July, maturing in July 2020	84,615	84,615
5.31% utility local improvement obligation, with annual principal and interest payments, maturing in March 2021	2,115	2,307
5.55% senior notes, with semi-annual interest payments in June and December, with annual principal payments in June, maturing in June 2023	40,200	40,200
5.82% senior notes, with semi-annual interest payments in March and September, with scheduled principal payments beginning March 2010, maturing in March 2024	210,000	225,000
8.92% senior notes, with semi-annual interest payments in March and September, with scheduled principal payments beginning March 2014, maturing in March 2024	50,000	50,000
Total debt	689,630	658,822
Less current portion of long term debt	(32,235)	(32,235)
Long-term debt	$ 657,395	$ 626,587

Principal payments due in:

2010	$ 17,042
2011	31,518
2012	104,801
2013	87,230
2014	56,175
Thereafter	392,864
	$ 689,630

The senior note purchase agreement contains covenants requiring our operating subsidiary to:

Maintain a ratio of consolidated indebtedness to consolidated EBITDA (as defined in the note purchase agreement) of no more than 4.0 to 1.0 for the four most recent quarters;

not permit debt secured by certain liens and debt of subsidiaries to exceed 10% of consolidated net tangible assets (as defined in the note purchase agreement); and

maintain the ratio of consolidated EBITDA to consolidated fixed charges (consisting of consolidated interest expense and consolidated operating lease expense) at not less than 3.5 to 1.0.

Two tranches of amortizing senior notes were issued in March 2009: $150 million that bear interest at 8.38%; and $50 million that bear interest at 8.92%. Both tranches of the notes have semi-annual interest payments. These senior notes also provide that in the event that the Partnership s leverage ratio exceeds 3.75 to 1.00 at the end of any fiscal quarter, then in addition to all other interest accruing on these notes, additional interest in the amount of 2.00% per annum shall accrue on the notes for the two succeeding quarters and for as long thereafter as the leverage ratio remains above 3.75 to 1.00.

The Partnership made a principal payment of $15.0 million on its 5.82% senior notes during the quarter ended March 31, 2010.

The Partnership has a $300 million revolving credit facility, and at March 31, 2010, $226 million was available under the facility. The Partnership incurs a commitment fee on the undrawn portion of the revolving credit facility at rates ranging from 0.10% to 0.30% per annum. Under an accordion feature in the credit facility, the Partnership may request its lenders to increase their aggregate

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commitment to a maximum of $450 million on the same terms. However, under the current market conditions, the Partnership cannot be certain that its lenders will elect to participate in the accordion feature. To the extent the lenders decline to participate, the Partnership may elect to bring new lenders into the facility, but cannot make any assurance that the additional credit capacity will be available on existing terms.

The Partnership had $74.0 million and $28.0 million outstanding on its revolving credit facility at March 31, 2010 and December 31, 2009, respectively. The weighted average interest rate at March 31, 2010 and December 31, 2009 was 1.37% and 2.07%, respectively.

The revolving credit facility contains covenants requiring the Partnership to maintain:

a ratio of consolidated indebtedness to consolidated EBITDDA (as defined in the credit agreement) of 3.75 to 1.0 for the four most recent quarters; provided however, if during one of those quarters we have made an acquisition, then the ratio shall not exceed 4.0 to 1.0 for the quarter in which the acquisition occurred and (1) if the acquisition is in the first half of the quarter, the next two quarters or (2) if the acquisition is in the second half of the quarter, the next three quarters; and

a ratio of consolidated EBITDDA to consolidated fixed charges (consisting of consolidated interest expense and consolidated lease operating expense) of 4.0 to 1.0 for the four most recent quarters.

The Partnership was in compliance with all terms under its long-term debt as of March 31, 2010.

8. Fair Value Measurements

The Partnership discloses certain assets and liabilities using fair value as defined by FASB s fair value authoritative guidance.

FASB s guidance describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Partnership s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The carrying amount of the Partnership s financial instruments included in accounts receivable and accounts payable approximates their fair value due to their short-term nature. The Partnership s cash and cash equivalents include money market accounts and are considered a Level 1 measurement. The fair market value of the Partnership s long-term debt was estimated to be $619.4 million and $627.5 million at March 31, 2010 and December 31, 2009, respectively, for the senior notes. The carrying value of the Partnership s long-term debt was $615.6 million and $630.8 million at March 31, 2010 and December 31, 2009, respectively, for the senior notes. The fair value is estimated by management using comparable term risk-free treasury issues with a market rate component determined by current financial instruments with similar characteristics which is a Level 3 measurement. Since the Partnership s credit facility is variable rate debt, its fair value approximates its carrying amount.

9. Net Income Per Unit Attributable to Limited Partners and Adoption of Two-Class Method

Basic and diluted net income per unit attributable to limited partners are the same since the Partnership has no potentially dilutive securities outstanding.

The holders of the IDRs elected to cap the distribution at Tier III for the quarters ending September 30, 2009 and December 31, 2009.

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10. Related Party Transactions

Reimbursements to Affiliates of our General Partner

The Partnership s general partner does not receive any management fee or other compensation for its management of Natural Resource Partners L.P. However, in accordance with the partnership agreement, the general partner and its affiliates are reimbursed for expenses incurred on the Partnership s behalf. All direct general and administrative expenses are charged to the Partnership as incurred. The Partnership also reimburses indirect general and administrative costs, including certain legal, accounting, treasury, information technology, insurance, administration of employee benefits and other corporate services incurred by our general partner and its affiliates.

The reimbursements to affiliates of the Partnership s general partner for services performed by Western Pocahontas Properties and Quintana Minerals Corporation totaled $1.8 million and $1.7 million for the three months ended March 31, 2010 and 2009, respectively. At March 31, 2010 the Partnership also had accounts payable to affiliates of $0.2 million.

Transactions with Cline Affiliates

Various companies controlled by Chris Cline lease coal reserves from the Partnership, and the Partnership provides coal transportation services to them for a fee. Mr. Cline, both individually and through another affiliate, Adena Minerals, LLC, owns a 31% interest in the Partnership s general partner and in the incentive distribution rights of the Partnership, as well as 13,510,072 common units. At March 31, 2010, the Partnership had accounts receivable totaling $4.9 million from Cline affiliates. For the three months ended March 31, 2010 and 2009, the Partnership had total revenue of $11.4 million and $6.2 million, respectively, from these companies. In addition, the Partnership has also received $30.9 million in advance minimum royalty payments that have not been recouped with Cline affiliates.

Quintana Capital Group GP, Ltd.

Corbin J. Robertson, Jr. is a principal in Quintana Capital Group GP, Ltd., which controls several private equity funds focused on investments in the energy business. In connection with the formation of Quintana Capital, the Partnership adopted a formal conflicts policy that establishes the opportunities that will be pursued by the Partnership and those that will be pursued by Quintana Capital. The governance documents of Quintana Capital s affiliated investment funds reflect the guidelines set forth in NRP s conflicts policy.

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