NATURAL RESOURCE PARTNERS LP
Form 10-Q
August 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

¨ **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	**35-2164875**
(State or other jurisdiction of incorporation or organization)	**(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 x No ¨

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 x No ¨

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):

x Large Accelerated Filer	¨ Accelerated Filer
¨ Non-accelerated Filer (Do not check if a smaller reporting company)	¨ 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 ¨ No x

At August 7, 2013 there were 109,812,408 Common Units outstanding.

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Forward-Looking Statements

Statements included in this Quarterly Report on 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 and acquisitions, expected commencement dates of mining, projected quantities of future production by the lessees mining our reserves and projected demand for or supply of coal, aggregates and oil and gas that will affect sales levels, prices and royalties and other revenues realized by us.

These forward-looking statements speak only as of the date hereof and 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 our Annual Report on Form 10-K for the year ended December 31, 2012 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, except unit data)

ASSETS	June 30, 2013 (Unaudited)	December 31, 2012
Current assets:		
Cash and cash equivalents	$ 105,204	$ 149,424
Accounts receivable, net of allowance for doubtful accounts	29,995	35,116
Accounts receivable affiliates	13,597	10,613
Other	4,097	1,042
Total current assets	152,893	196,195
Land	24,340	24,340
Plant and equipment, net	29,268	32,401
Mineral rights, net	1,360,386	1,380,473
Intangible assets, net	69,064	70,766
Equity and other unconsolidated investments	279,877	
Loan financing costs, net	5,383	4,291
Long-term contracts receivable affiliate	54,080	55,576
Other assets, net	560	630
Total assets	$ 1,975,851	$ 1,764,672
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,399	$ 3,693
Accounts payable affiliates	1,472	957
Current portion of long-term debt	59,175	87,230
Accrued incentive plan expenses current portion	7,056	7,718
Property, franchise and other taxes payable	6,593	7,952
Accrued interest	9,689	10,265
Total current liabilities	87,384	117,815
Deferred revenue	133,297	123,506
Accrued incentive plan expenses	8,308	8,865
Long-term debt	1,088,556	897,039
Partners capital:		
Common units outstanding (109,812,408 and 106,027,836)	646,356	605,019
General partner s interest	10,872	10,026
Non-controlling interest	1,416	2,845
Accumulated other comprehensive loss	(338)	(443)
Total partners capital	658,306	617,447
Total liabilities and partners capital	$ 1,975,851	$ 1,764,672

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

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NATURAL RESOURCE PARTNERS L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Revenues:				
Coal royalties	$ 58,210	$ 62,878	$ 112,652	$ 122,794
Equity and other unconsolidated investment income, net	7,882		14,930	
Aggregate royalties	1,751	1,702	3,303	3,418
Processing fees	1,329	3,138	2,509	5,264
Transportation fees	3,832	5,246	8,757	9,354
Oil and gas royalties	4,093	4,078	5,856	5,466
Property taxes	3,849	3,331	7,796	7,819
Minimums recognized as revenue	836	938	5,427	12,652
Override royalties	3,179	3,497	8,084	8,639
Other	1,843	5,856	11,822	7,130
Total revenues	86,804	90,664	181,136	182,536
Operating expenses:				
Depreciation, depletion and amortization	17,411	15,172	32,173	27,581
Asset impairments	443		734	
General and administrative	8,878	7,029	20,464	15,979
Property, franchise and other taxes	4,225	3,771	8,576	8,787
Transportation costs	328	527	787	1,000
Coal royalty and override payments	187	673	542	873
Total operating expenses	31,472	27,172	63,276	54,220
Income from operations	55,332	63,492	117,860	128,316
Other income (expense)				
Interest expense	(14,440)	(13,578)	(29,103)	(27,138)
Interest income	173	24	214	69
Income before non-controlling interest	41,065	49,938	88,971	101,247
Non-controlling interest				
Net income	$ 41,065	$ 49,938	$ 88,971	$ 101,247
Net income attributable to:				
General partner	$ 821	$ 999	$ 1,779	$ 2,025
Limited partners	$ 40,244	$ 48,939	$ 87,192	$ 99,222
Basic and diluted net income per limited partner unit	$ 0.37	$ 0.46	$ 0.80	$ 0.94
Weighted average number of units outstanding	109,812	106,028	109,352	106,028
Comprehensive income	$ 41,116	$ 49,951	$ 89,076	$ 101,270

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)

	Six Months Ended June 30, 2013	2012
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 88,971	$ 101,247
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	32,173	27,581
Gain on reserve swap	(8,149)	
Equity and other unconsolidated investment income, net	(14,930)	
Distributions of earnings from unconsolidated investments	16,162	
Non-cash interest charge, net	555	300
Gain on sale of assets	(150)	(4,108)
Asset impairment	734	
Change in operating assets and liabilities:		
Accounts receivable	4,250	5,851
Other assets	(2,985)	24
Accounts payable and accrued liabilities	221	562
Accrued interest	(576)	(158)
Deferred revenue	9,951	6,551
Accrued incentive plan expenses	(1,219)	(5,261)
Property, franchise and other taxes payable	(1,359)	(582)
Net cash provided by operating activities	123,649	132,007
Cash flows from investing activities:		
Acquisition of land and mineral rights		(94,453)
Acquisition or construction of plant and equipment		(492)
Acquisition of equity interests	(292,979)	
Distributions from unconsolidated investments	10,777	
Proceeds from sale of assets	154	285
Return on direct financing lease and contractual override	555	904
Investment in direct financing lease		(59,009)
Net cash used in investing activities	(281,493)	(152,765)
Cash flows from financing activities:		
Proceeds from loans	243,000	73,000
Repayment of loans	(79,538)	(23,108)
Deferred financing costs	(1,621)	
Proceeds from issuance of units	75,000	
Capital contribution by general partner	1,531	
Costs associated with equity transactions	(60)	
Repayment of obligation related to acquisitions		(500)
Distributions to partners	(124,688)	(121,582)
Net cash provided by (used in) financing activities	113,624	(72,190)

Net (decrease) in cash and cash equivalents	(44,220)	(92,948)
Cash and cash equivalents at beginning of period	149,424	214,922
Cash and cash equivalents at end of period	$ 105,204	$ 121,974
Supplemental cash flow information:		
Cash paid during the period for interest	$ 29,085	$ 26,976

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

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NATURAL RESOURCE PARTNERS L.P.

CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL

(In thousands, except unit data)

	Common Units		General Partner	Non-Controlling Interest	Accumulated Other Comprehensive Income (Loss)	
	Units	Amounts	Amounts	Amounts		Total
Balance at December 31, 2012	106,027,836	$ 605,019	$ 10,026	$ 2,845	$ (443)	$ 617,447
Issuance of common units	3,784,572	75,000				75,000
Capital contribution			1,531			1,531
Cost associated with equity transactions		(60)				(60)
Distributions		(120,795)	(2,464)	(1,429)		(124,688)
Net income		87,192	1,779			88,971
Interest rate swap from unconsolidated investments					79	79
Loss on interest hedge					26	26
Comprehensive income					105	89,076
Balance at June 30, 2013	109,812,408	$ 646,356	$ 10,872	$ 1,416	$ (338)	$ 658,306

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 and six months ended June 30, 2013 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 2012 Annual Report on Form 10-K in connection with the reading of these unaudited interim consolidated financial statements.

The Partnership engages principally in the business of owning, managing and leasing mineral properties in the United States. The Partnership owns coal reserves in the three major coal-producing regions of the United States: Appalachia, the Illinois Basin and the Western United States, as well as lignite reserves in the Gulf Coast region. The Partnership also owns aggregate reserves in several states across the country. The Partnership does not operate any mines on its properties, but leases reserves to experienced operators under long-term leases that grant the operators the right to mine the Partnership s reserves in exchange for royalty payments. Lessees are generally required to make payments based on the higher of a percentage of the gross sales price or a fixed royalty per ton, in addition to a minimum payment.

In addition, the Partnership owns transportation and preparation equipment, other mineral related rights and oil and gas properties on which it earns revenue. In January 2013, the Partnership purchased non-controlling equity interests in OCI Wyoming, L.P. (OCI Wyoming) and OCI Wyoming Co. (OCI Co), which operate a trona ore mining operation and a soda ash refinery in the Green River Basin, Wyoming. Please read Note 4. Equity and Other Investments for more information concerning this acquisition.

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.

Equity Investments

The Partnership accounts for non-marketable investments using the equity method of accounting if the investment gives it the ability to exercise significant influence over, but not control of, an investee. Significant influence generally exists if the Partnership has an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investment and the proportionate share of earnings or losses and distributions. Furthermore, under the equity method of accounting, an investee company s accounts are not reflected within the Partnership s Consolidated Balance Sheets and Statements of Comprehensive Income; however, the Partnership s share of the earnings or losses of the investee company is reflected in the caption Equity and other unconsolidated investment income, net in the Consolidated Statements of Comprehensive Income. The Partnership s carrying value in an equity method investee company is reflected in the caption Equity and other unconsolidated investments in the Partnership s Consolidated Balance Sheets.

The Partnership accounts for its non-marketable equity investments using the cost method of accounting if its ownership interest does not provide the ability to exercise significant influence over the investee or if the investment is not determined to be in- substance common stock. The inability to exert significant influence is generally presumed if the investment is less than 20% of the investee s voting securities.

The Partnership evaluates its equity investments for impairment when events or changes in circumstances indicate, in management s judgment, that the carrying value of such investment may have experienced other than temporary decline in value. When evidence of loss in value has occurred, management compares the estimated fair value of the investment to the carrying value of the investment to determine whether impairment has occurred. If the estimated fair value is less than the carrying value and management considers the decline in value to be other than temporary, the excess of the carrying value over the estimated fair value is recognized in the financial statements as an impairment loss. No impairment losses have been recognized as of June 30, 2013.

Recent Accounting Pronouncements

In February 2013 the FASB amended the comprehensive income reporting requirements to require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The amendment requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The adoption did not have a material impact on the financial statements.

Other accounting standards that have been issued 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 or cash flows.

3. Equity and Other Investments

In the first quarter of 2013, the Partnership acquired non-controlling equity interests in OCI Co and OCI Wyoming comprised of a 48.51% general partner interest in OCI Wyoming and 20% of the common stock and 100% of the preferred stock in OCI Co. OCI Co owns a 1% limited partnership interest in OCI Wyoming and has the right to receive a $14.5 million annual priority distribution before distributions are paid to other interests. The 80% common interest in OCI Co is owned by OCI Chemical Corporation and the 50.49% interest in OCI Wyoming is owned by OCI Wyoming Holding Co., a subsidiary of OCI Chemical Corporation. The preferred stock is subject to certain liquidation preferences in the event of any liquidation, dissolution or winding up of OCI Co at $2,776 per share plus any accrued and unpaid preferred dividends. The liquidation value was $64.4 million at June 30, 2013. These investments were restructured in July 2013, resulting in the Partnership holding a 49% interest in OCI Wyoming. See Note 14. Subsequent Events for a description of these transactions.

OCI Wyoming s operations consist of the mining of trona ore, which, when refined, becomes soda ash. All soda ash is sold through an affiliated sales agent to various domestic and European customers and to American Natural Soda Ash Corporation for export primarily to Asia and Latin America. All mining and refining activities take place in one facility located in the Green River Basin, Wyoming. OCI Co s only significant asset is its ownership interest in OCI Wyoming.

These investments were acquired from Anadarko Holding Company and its subsidiary, Big Island Trona Company for $292.5 million. The acquisition was funded through a $200 million term loan, the issuance of $76.5 million in equity (including a general partner contribution of $1.5 million), and $16 million in cash. The acquisition agreement provides for a net present value of up to $50 million in cumulative additional contingent consideration payable by the Partnership should certain performance criteria be met as defined in the purchase and sale agreement in any of the years 2013, 2014 or 2015.

The Partnership has engaged a valuation specialist to assist in allocating the purchase price to the equity interests acquired as well as to assist in identifying and valuing the assets and liabilities of OCI Wyoming at the date of acquisition, including the land, mine, plant and equipment as well as identifiable intangible assets, if any. Included in preliminary fair value adjustments, based on updated estimates, is an increase in the Partnership s proportionate fair value of property, plant and equipment of $78.7 million. Under the equity method of accounting, this amount is not reflected individually in the accompanying consolidated financial statements but is used to determine periodic charges to amounts reflected as income earned from the equity investments. For the quarter and six months ended June 30, 2013, amortization of purchase adjustments of $0.7 and $1.2 million was recorded by the Partnership. Until the valuations are complete, the remainder of the excess of the purchase price over the estimated fair value of the equity interests acquired has been attributed to the value of the Partnership s investment in preferred stock of OCI Co and goodwill; neither of which are subject to amortization. The allocation of the purchase price to the acquired equity interests and the underlying assets and liabilities is preliminary and subject to further adjustment, which may be material.

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The following summarized combined financial information for OCI Wyoming and OCI Co as of June 30, 2013 and the results of their operations for the three and six-month periods then ended were taken from the OCI-prepared unaudited financial statements.

Operating results:

	Three Months Ended March 31, 2013	Six Months Ended June 30, 2013
	(In thousands)	
	(Unaudited)	
Net sales	$ 79,822	$ 157,882
Gross profit	$ 22,372	$ 43,315
Net income	$ 18,589	$ 36,958
Income allocation to NRP s equity interests	$ 8,565	$ 16,161

Combined balance sheet:

	June 30, 2013 (In thousands)
	(Unaudited)
Current assets	$ 151,741
Property, plant and equipment	191,051
Other assets	24
Total assets	$ 342,816
Current liabilities	$ 34,286
Long term debt	46,000
Other liabilities	3,665
Capital	258,865
Total liabilities and capital	$ 342,816
Net book value of NRP s equity interests	$ 139,347
Excess of NRP s investment over net book value of NRP s equity interests	$ 140,530

4. Plant and Equipment

The Partnership s plant and equipment consist of the following:

	June 30, 2013	December 31, 2012
	(In thousands)	
	(Unaudited)	
Plant and equipment at cost	$ 55,271	$ 55,271
Less accumulated depreciation	(26,003)	(22,870)

Net book value	$ 29,268	$ 32,401

	Six months ended June 30,	
	2013	**2012**
	(In thousands)	
	(Unaudited)	
Total depreciation expense on plant and equipment	$ 3,133	$ 3,711

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5. Mineral Rights

The Partnership s mineral rights consist of the following:

	June 30, 2013	December 31, 2012
	(In thousands)	
	(Unaudited)	
Mineral rights	$ 1,822,594	$ 1,815,423
Less accumulated depletion and amortization	(462,208)	(434,950)
Net book value	$ 1,360,386	$ 1,380,473

	Six months ended June 30,	
	2013	2012
	(In thousands)	
	(Unaudited)	
Total depletion and amortization expense on mineral rights	$ 27,338	$ 21,680

6. Intangible Assets

Amounts recorded as intangible assets along with the balances and accumulated amortization are reflected in the table below:

	June 30, 2013	December 31, 2012
	(In thousands)	
	(Unaudited)	
Contract intangibles	$ 89,421	$ 89,421
Less accumulated amortization	(20,357)	(18,655)
Net book value	$ 69,064	$ 70,766

	Six months ended June 30,	
	2013	2012
	(In thousands)	
	(Unaudited)	
Total amortization expense on intangible assets	$ 1,702	$ 2,192

The estimates of future amortization expense relating to intangible assets for the periods indicated below are based on current mining plans, which are subject to revision in future periods.

	Estimated Amortization Expense (In thousands) (Unaudited)
Remainder of 2013	$ 2,117
For year ended December 31, 2014	3,690
For year ended December 31, 2015	3,830
For year ended December 31, 2016	3,830
For year ended December 31, 2017	3,830

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7. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2013	December 31, 2012
	(In thousands)	
$300 million floating rate revolving credit facility, due August 2016	$ 191,000	$ 148,000
$200 million floating rate term loan, due January 2016	200,000	
5.55% senior notes, with semi-annual interest payments in June and December, maturing June 2013		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	23,084	27,700
8.38% senior notes, with semi-annual interest payments in March and September, with annual principal payments in March, maturing in March 2019	128,571	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	61,538	61,538
5.31% utility local improvement obligation, with annual principal and interest payments, maturing in March 2021	1,538	1,731
5.55% senior notes, with semi-annual interest payments in June and December, with annual principal payments in June, maturing in June 2023	27,000	30,300
4.73% senior notes, with semi-annual interest payments in June and December, with scheduled principal payments beginning December 2014, maturing in December 2023	75,000	75,000
5.82% senior notes, with semi-annual interest payments in March and September, with annual principal payments in March, maturing in March 2024	165,000	180,000
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
5.03% senior notes, with semi-annual interest payments in June and December, with scheduled principal payments beginning December 2014, maturing in December 2026	175,000	175,000
5.18% senior notes, with semi-annual interest payments in June and December, with scheduled principal payments beginning December 2014, maturing in December 2026	50,000	50,000
Total debt	1,147,731	984,269
Less current portion of long term debt	(59,175)	(87,230)
Long-term debt	$ 1,088,556	$ 897,039

The Partnership made principal payments of $79.3 million on its senior notes during the six months ended June 30, 2013. The remaining principal payments are due as set forth below:

	Senior Notes	Credit Facility	Term Loan	Total
		(In thousands)		
Remainder of 2013	$ 7,692	$	$	$ 7,692
2014	80,983		10,000	90,983
2015	80,983		20,000	100,983
2016	80,983	191,000	170,000	441,983
2017	80,983			80,983
Thereafter	425,107			425,107
	$ 756,731	$ 191,000	$ 200,000	$ 1,147,731

Of the $7.7 million in principal payments due on the senior notes for the remainder of 2013, the Partnership refinanced $7.0 million of these payments with long-term debt under its revolving credit facility in July 2013 and paid the remaining amount with cash. At June 30, 2013, the Partnership classified $7.0 million of short-term debt as long-term debt, based on its ability and intent to refinance the obligation on a long-term basis under the revolving credit facility.

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

- Maintain a ratio of consolidated indebtedness to consolidated EBITDDA (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 EBITDDA to consolidated fixed charges (consisting of consolidated interest expense and consolidated operating lease expense) at not less than 3.5 to 1.0.

The 8.38% and 8.92% 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 weighted average interest rates for the debt outstanding under the Partnership s revolving credit facility for the six months ended June 30, 2013 and year ended December 31, 2012 were 2.14% and 2.09%, respectively. The Partnership incurs a commitment fee on the undrawn portion of the revolving credit facility at rates ranging from 0.18% to 0.40% per annum. The facility includes an accordion feature whereby the Partnership may request its lenders to increase their aggregate commitment to a maximum of $500 million on the same terms.

In June 2013, the Partnership entered into an amendment to its revolving credit facility. The amendment amends (i) the restricted payments covenant to permit any restricted payment by the Partnership s subsidiaries so long as no event of default exists at the time of or would result from such restricted payment, and (ii) the investments covenant to permit any investment in a joint venture so long as, immediately after giving effect to such investment, no default has occurred and is continuing and the Partnership is in pro forma compliance with the financial covenants in the revolving credit facility.

During the first quarter, the Partnership also issued $200 million in term debt. The weighted average interest rate for the debt outstanding under the term loan for the six months ended June 30, 2013 was 2.36%. Repayment terms call for principal payments beginning January 23, 2014 of $10.0 million, $20.0 million on January 23, 2015 with the balance due on January 23, 2016. The debt is unsecured but guaranteed by the operating subsidiaries of the Partnership.

In June 2013, the Partnership entered into an amendment to the $200 million term loan agreement. The amendment amends (i) the restricted payments covenant to permit any restricted payment by the Partnership s subsidiaries so long as no event of default exists at the time of or would result from such restricted payment, (ii) the investments covenant to permit any investment in a joint venture so long as, immediately after giving effect to such investment, no default has occurred and is continuing and the Partnership is in pro forma compliance with the financial covenants in the term loan agreement, and (iii) the provision regarding application of any prepayments of the term loan so that any such prepayments will be applied in forward order of maturity.

The revolving credit facility and the term loan contain covenants requiring the Partnership to maintain:

a ratio of consolidated indebtedness to consolidated EBITDDA (as defined in the credit agreement) not to exceed 4.0 to 1.0 and,

a ratio of consolidated EBITDDA to consolidated fixed charges (consisting of consolidated interest expense and consolidated lease operating expense) of not less than 3.5 to 1.0 for the four most recent quarters.

The Partnership was in compliance with all terms under its long-term debt as of June 30, 2013.

8. Fair Value

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 except for the accounts receivable affiliates relating to the Sugar Camp override and Taggart preparation plant sale that includes both current and long-term portions. The Partnership s cash and cash equivalents include money market accounts and are considered a Level 1 measurement. The fair market value and carrying value of the contractual override, Taggart note receivable and long-term senior notes are as follows:

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	Fair Value As Of		Carrying Value As Of	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
	(In thousands)			
	(Unaudited)		(Unaudited)	
Assets				
Sugar Camp override, current and long-term	$ 8,812	$ 8,817	$ 7,953	$ 7,495
Taggart plant sale, current and long-term	$ 1,552	$ 1,668	$ 1,552	$ 1,667
Liabilities				
Long-term debt, current and long-term	$ 782,865	$ 876,574	$ 756,731	$ 836,269

The fair value of the Sugar Camp override, Taggart plant sale and long-term debt 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 and term loan are both variable rate debt, their fair values approximate their carrying amounts.

9. 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 Partnership had an amount payable to Quintana Minerals Corporation of $1.3 million at June 30, 2013 for services provided by Quintana to the Partnership. The Partnership also had an amount payable to Western Pocahontas Properties of $0.2 million for services provided to the Partnership.

The reimbursements to affiliates of the Partnership s general partner for services performed by Western Pocahontas Properties and Quintana Minerals Corporation are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
	(Unaudited)			
Reimbursement for services	$ 2,912	$ 2,404	$ 5,732	$ 4,927

The Partnership also leases an office building in Huntington, West Virginia from Western Pocahontas Properties and pays $0.6 million in lease payments each year through December 31, 2018.

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. At June 30, 2013, Mr. Cline, both individually and through another affiliate, Adena Minerals, LLC, owned a 31% interest in the Partnership s general partner, as well as 4,917,548 common units.

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Revenues from the Cline affiliates are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
	(Unaudited)			
Coal royalty revenues	$ 12,340	$ 12,833	$ 24,558	$ 21,456
Processing fees	271	528	593	1,030
Transportation fees	3,831	5,246	8,758	9,354
Minimums recognized as revenue			3,477	9,556
Override revenue	742	768	1,778	1,694
Other revenue			8,149	
	$ 17,184	$ 19,375	$ 47,313	$ 43,090

At June 30, 2013, the Partnership had amounts due from Cline affiliates totaling $63.4 million, of which $57.0 million was attributable to agreements relating to Sugar Camp. The Partnership has received $64.0 million in minimum royalty payments that have not been recouped by Cline affiliates, of which $11.1 million was received in the current year.

During 2013, the Partnership recognized an $8.1 million gain on a reserve swap in Illinois with Williamson Energy. This gain is reflected in the table above in the Other revenue line. The fair value of the reserves was estimated using Level 3 cash flow approach. The expected cash flows were developed using estimated annual sales tons, forecasted sales prices and anticipated market royalty rates. The tons received will be fully mined during 2013, while the tons exchanged are not included in the current mine plans

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 the Partnership s conflicts policy.

At June 30, 2013, a fund controlled by Quintana Capital owned a significant membership interest in Taggart Global USA, LLC, including the right to nominate two members of Taggart s 5-person board of directors. Subsequent to the end of the quarter, Taggart was sold to Forge Group, and Quintana no longer retains an interest in Taggart or Forge. The Partnership owned and leased preparation plants to Taggart, which operated the plants. The lease payments are based on the sales price for the coal that is processed through the facilities.

At the end of the three and six month periods ended June 30, 2013, the Partnership leased three facilities to Taggart. Revenues from Taggart were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
	(Unaudited)			
Processing fees	$ 999	$ 2,311	$ 1,761	$ 3,657

At June 30, 2013, the Partnership had accounts receivable from processing of $1.2 million from Taggart, as well as a $1.6 million note receivable from the sale of a preparation plant during 2012. In connection with the sale to Forge in July, the $1.6 million note was paid in full.

At June 30, 2013, a fund controlled by Quintana Capital owned Kopper-Glo, a small coal mining company that is one of the Partnership s lessees with operations in Tennessee. Subsequent to the end of the quarter, Kopper-Glo merged with Corsa Coal Corp.

Corbin J. Robertson III, one of the Partnership s directors, has been named Chairman of the Board of Corsa. Revenues from Kopper-Glo are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
	(Unaudited)			
Coal royalty revenues	$ 1,051	$ 929	$ 2,154	$ 1,688

The Partnership also had accounts receivable totaling $0.3 million from Kopper-Glo at June 30, 2013.

OCI Co

At June 30, 2013, the Partnership had accounts receivable from OCI Co of $1.2 million for accrued dividends receivable. This amount is presented as Accounts receivable affiliates on the Partnership s Consolidated Balance Sheets.

10. Commitments and Contingencies

Legal

The Partnership is involved, from time to time, in various legal proceedings arising in the ordinary course of business. While the ultimate results of these proceedings cannot be predicted with certainty, Partnership management believes these claims will not have a material effect on the Partnership s financial position, liquidity or operations.

Acquisition

On June 17, 2013, the Partnership entered into a definitive agreement to purchase non-operated working interests in producing oil and gas properties located in the Bakken/Three Forks play located in the Williston Basin of North Dakota and Montana from Abraxas Petroleum Corporation for approximately $35.3 million, subject to purchase price adjustments at closing. Upon entering the agreement, the Partnership paid a deposit of $3.5 million in cash.

Environmental Compliance

The operations conducted on the Partnership s properties by its lessees are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. As owner of surface interests in some properties, the Partnership may be liable for certain environmental conditions occurring at the surface properties. The terms of substantially all of the Partnership s leases require the lessee to comply with all applicable laws and regulations, including environmental laws and regulations. Lessees post reclamation bonds assuring that reclamation will be completed as required by the relevant permit, and substantially all of the leases require the lessee to indemnify the Partnership against, among other things, environmental liabilities. Some of these indemnifications survive the termination of the lease. The Partnership has neither incurred, nor is aware of, any material environmental charges imposed on it related to its properties as of June 30, 2013. The Partnership is not associated with any environmental contamination that may require remediation costs. During the second quarter of 2013, several citizen group lawsuits were filed against landowners alleging ongoing discharges of pollutants, including selenium, from valley fills located at reclaimed mountaintop removal mining sites in West Virginia. In each case, the mine on the subject property has been closed, the property has been reclaimed, and the state reclamation bond has been released. A subsidiary of NRP has been named as a defendant in one of these lawsuits. While it is too early to determine the merits or predict the outcome of any of these lawsuits, any determination that a landowner or lessee has liability for discharges from a previously reclaimed mine site would result in uncertainty as to continuing liability for completed and reclaimed coal mine operations.

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11. Major Lessees

Revenues from lessees that exceeded ten percent of total revenues for the periods are presented below:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
	(Dollars in thousands) (Unaudited)							
	Revenues	Percent	Revenues	Percent	Revenues	Percent	Revenues	Percent
Alpha Natural Resources	$ 15,125	17%	$ 20,240	22%	$ 28,907	16%	$ 44,387	24%
The Cline Group	$ 17,184	20%	$ 19,375	21%	$ 47,313	26%	$ 43,090	24%

In the first six months of 2013, the Partnership derived over 42% of its total revenue from the two companies listed above. The first half 2013 revenues received from the Cline Group include $8.1 million in revenues recorded in connection with a reserve swap at Cline s Williamson mine. Excluding the revenues from the reserve swap, revenues from the Cline Group accounted for approximately $39.2 million, or 22% of the Partnership s total revenues for the first six months of 2013. The Partnership has a significant concentration of revenues with Cline and Alpha, although in most cases, with the exception of the Williamson mine, the exposure is spread out over a number of different mining operations and leases. Cline s Williamson mine was responsible for approximately 14% of the Partnership s total revenues for the first six months of 2013, which amount includes the $8.1 million of revenue recorded from the reserve swap. Excluding revenues from the reserve swap, revenues from the Williamson mine accounted for approximately 10% of the Partnership s total revenues for the first six months of 2013.

12. Incentive Plans

GP Natural Resource Partners LLC adopted the Natural Resource Partners Long-Term Incentive Plan (the Long-Term Incentive Plan) for directors of GP Natural Resource Partners LLC and employees of its affiliates who perform services for the Partnership. The Compensation, Nominating and Governance (CNG) Committee of GP Natural Resource Partners LLC s board of directors administers the Long-Term Incentive Plan. Subject to the rules of the exchange upon which the common units are listed at the time, the board of directors and the CNG Committee of the board of directors have the right to alter or amend the Long-Term Incentive Plan or any part of the Long-Term Incentive Plan from time to time. Except upon the occurrence of unusual or nonrecurring events, no change in any outstanding grant may be made that would materially reduce the benefit intended to be made available to a participant without the consent of the participant.

Under the plan a grantee will receive the market value of a common unit in cash upon vesting. Market value is defined as the average closing price over the last 20 trading days prior to the vesting date. The CNG Committee may make grants under the Long-Term Incentive Plan to employees and directors containing such terms as it determines, including the vesting period. Outstanding grants vest upon a change in control of the Partnership, the general partner, or GP Natural Resource Partners LLC. If a grantee s employment or membership on the board of directors terminates for any reason, outstanding grants will be automatically forfeited unless and to the extent the CNG Committee provides otherwise.

A summary of activity in the outstanding grants during 2013 is as follows:

Outstanding grants at January 1, 2013	912,314
Grants during the year	334,007
Grants vested and paid during the year	(231,917)
Forfeitures during the year	(6,720)
Outstanding grants at June 30, 2013	1,007,684

Grants typically vest at the end of a four-year period and are paid in cash upon vesting. The liability fluctuates with the market value of the Partnership units and because of changes in estimated fair value determined each quarter using the Black-Scholes option valuation model. Risk free interest rates and volatility are reset at each calculation based on current rates corresponding to the remaining vesting term for each outstanding grant and ranged from 0.18% to 1.03% and 30.22% to 34.61%, respectively at June 30, 2013. The Partnership s average distribution rate of 7.16% and historical forfeiture rate of 4.13% were used in the calculation at June 30, 2013. The Partnership recorded expenses related to

its plan to be reimbursed to its general partner of $1.9 million and $0.9 million and $6.9 million and $2.4 million for the three and six months ended June 30, 2013 and 2012, respectively. In connection with the Long-Term Incentive Plan, payments are typically made during the first quarter of the year. Payments of $7.0 million and $6.6 million were made during the six month period ended June 30, 2013 and 2012, respectively.

In connection with the phantom unit awards granted since February 2008, the CNG Committee also granted tandem Distribution Equivalent Rights, or DERs, which entitle the holders to receive distributions equal to the distributions paid on the Partnership s common units. The DERs are payable in cash upon vesting but may be subject to forfeiture if the grantee ceases employment prior to vesting.

The unaccrued cost, associated with the unvested outstanding grants and related DERs at June 30, 2013 was $13.3 million.

13. Distributions

On May 14, 2013, the Partnership paid a quarterly distribution $0.55 per unit to all holders of common units on May 6, 2013.

14. Subsequent Events

The following represents material events that have occurred subsequent to June 30, 2013 through the time of the Partnership s filing of this Quarterly Report on Form 10-Q with the Securities and Exchange Commission:

Distributions

On July 23, 2013, the Partnership declared a distribution of $0.55 per unit to be paid on August 14, 2013 to unitholders of record on August 5, 2013.

Dividends and Distributions Received From Unconsolidated Equity and Other Investments

Subsequent to the end of the second quarter, the Partnership received $46.0 million in cash distributions from its investments in OCI Wyoming. This includes a one-time special distribution of $44.8 million. The Partnership used a portion of the proceeds from the July 2013 distribution from OCI Wyoming to prepay the $10 million principal payment that is due in January 2014 on the term loan. Following this principal repayment, the next principal repayment obligation on the term loan is not until January 2015. The Partnership intends to use the remaining portion of the OCI Wyoming special distribution to fund the purchase price of the Bakken/Three Forks non-operated working interests acquisition, which is expected to close in August 2013. In July 2013, the interests in OCI Wyoming were restructured to eliminate the Partnership s interest in OCI Co and increase its interest in OCI Wyoming to 49.0%.

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

The following discussion of the financial condition and results of operations should be read in conjunction with the historical financial statements and notes thereto included elsewhere in this filing and the financial statements and footnotes included in the Natural Resource Partners L.P. Annual Report on Form 10-K for the year ended December 31, 2012, as filed on February 28, 2013.

Executive Overview

Our Business

We engage principally in the business of owning, managing and leasing mineral properties in the United States. We own coal reserves in the three major U.S. coal-producing regions: Appalachia, the Illinois Basin and the Western United States, as well as lignite reserves in the Gulf Coast region. As of December 31, 2012, we owned or controlled approximately 2.4 billion tons of proven and probable coal reserves. We do not operate any mines, but lease our reserves to experienced mine operators under long-term leases that grant the operators the right to mine and sell our reserves in exchange for royalty payments. We also own and manage infrastructure assets that generate additional revenues for NRP, particularly in the Illinois Basin.

In recent years, we have made a concerted effort to diversify our business. In connection with this effort, we have acquired approximately 500 million tons of aggregate reserves located in a number of states across the country. In our coal and aggregate royalty business, our lessees generally make payments to us based on the greater of a percentage of the gross sales price or a fixed royalty per ton of coal or aggregates they sell, subject to minimum monthly, quarterly or annual payments. These minimum royalties are generally recoupable over a specified period of time, which varies by lease, if sufficient royalties are generated from production in those future periods. We do not recognize these minimum royalties as revenue until the applicable recoupment period has expired or they are recouped through production. Until recognized as revenue, these minimum royalties are recorded as deferred revenue, a liability on our balance sheet.

We have also acquired various interests in oil and gas properties that are located principally in the Appalachian Basin, Louisiana and Oklahoma. Oil and gas royalty revenues include production payments as well as bonus payments. Oil and gas royalty revenues are recognized on the basis of hydrocarbons sold by lessees and the corresponding revenue from those sales. Generally, the lessees make payments based on a percentage of the selling price. Some leases are subject to minimum annual payments or delay rentals.

In 2013, we have made significant strides in our diversification effort through two acquisitions: