

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)

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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 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 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):

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

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.

Table of Contents**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

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

Table of Contents**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 (Unaudited)	2012	2013 (Unaudited)	2012
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.

Table of Contents**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)

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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	Non-Controlling	Accumulated	Total
	Units	Amounts	Partner	Interest	Other	
			Amounts	Amounts	Comprehensive Income (Loss)	
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.

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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)

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Net book value	\$ 29,268	\$ 32,401
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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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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