NATURAL RESOURCE PARTNERS LP
Form 10-K
February 29, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011 or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-31465

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 Number)*
601 Jefferson, Suite 3600 **Houston, Texas** *(Address of principal executive offices)*	**77002** *(Zip Code)*

(713) 751-7507

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Units representing limited partnership interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

þ Large Accelerated Filer ¨ Accelerated Filer ¨ Non-accelerated Filer ¨ Smaller Reporting Company

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

The aggregate market value of the Common Units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant and holders of 10% or more of the Common Units outstanding, for this purpose, as if they were affiliates of the registrant) was approximately $1.9 billion on June 30, 2011 based on a price of $33.17 per unit, which was the closing price of the Common Units as reported on the daily composite list for transactions on the New York Stock Exchange on that date.

As of February 29, 2012, there were 106,027,836 Common Units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

None.

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Forward-Looking Statements

Statements included in this Form 10-K are forward-looking statements. In addition, we and our representatives may from time to time make other oral or written statements which 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 our lessees producing from our reserves, and projected demand or supply for coal, aggregates and oil and gas that will affect sales levels, prices and royalties 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 for important factors that could cause our actual results of operations or our actual financial condition to differ.

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PART I

Item 1. ***Business***

Natural Resource Partners L.P. is a limited partnership formed in April 2002, and we completed our initial public offering in October 2002. 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, 2011, we owned or controlled approximately 2.3 billion tons of proven and probable coal reserves, and we also owned approximately 380 million tons of aggregate reserves in a number of states across the country. 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. Our lessees are generally required to make payments to us based on the higher of a percentage of the gross sales price or a fixed price per ton, in addition to minimum payments.

In 2011, our lessees produced 49.2 million tons of coal from our properties and our coal royalty revenues were $279.2 million. Processing fees and transportation fees added $30.2 million to our total revenues. In addition, we received $14.0 million in oil and gas royalties, and our lessees produced 5.9 million tons of aggregates resulting in aggregate royalties of $6.7 million.

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. We own our subsidiaries through a wholly owned operating company, NRP (Operating) LLC. NRP (GP) LP, our general partner, has sole responsibility for conducting our business and for managing our operations. Because our general partner is a limited partnership, its general partner, GP Natural Resource Partners LLC, conducts its business and operations, and the board of directors and officers of GP Natural Resource Partners LLC makes decisions on our behalf. Robertson Coal Management LLC, a limited liability company wholly owned by Corbin J. Robertson, Jr., owns all of the membership interest in GP Natural Resource Partners LLC. Subject to the Investor Rights Agreement with Adena Minerals, LLC, Mr. Robertson is entitled to nominate nine directors, five of whom must be independent directors, to the board of directors of GP Natural Resource Partners LLC. Mr. Robertson has delegated the right to nominate two of the directors, one of whom must be independent, to Adena Minerals.

The senior executives and other officers who manage NRP are employees of Western Pocahontas Properties Limited Partnership and Quintana Minerals Corporation, companies controlled by Mr. Robertson, and they allocate varying percentages of their time to managing our operations. Neither our general partner, GP Natural Resource Partners LLC, nor any of their affiliates receive any management fee or other compensation in connection with the management of our business, but they are entitled to be reimbursed for all direct and indirect expenses incurred on our behalf.

Our operations headquarters is located at 5260 Irwin Road, Huntington, West Virginia 25705 and the telephone number is (304) 522-5757. Our principal executive office is located at 601 Jefferson Street, Suite 3600, Houston, Texas 77002 and our phone number is (713) 751-7507.

Royalty Business

Royalty businesses principally own and manage mineral reserves. As an owner of mineral reserves, we typically are not responsible for operating mines, but instead enter into leases with mine operators granting them the right to mine and sell reserves from our property in exchange for a royalty payment. A typical lease has a 5- to 10-year base term, with the lessee having an option to extend the lease for additional terms. Leases may include the right to renegotiate rents and royalties for the extended term.

Under our standard lease, lessees calculate royalty payments due us and are required to report tons of coal or aggregates removed as well as the sales prices of the extracted minerals. Therefore, to a great extent, amounts reported as royalty revenue are based upon the reports of our lessees. We periodically audit this information by examining certain records and internal reports of our lessees, and we perform periodic mine inspections to verify that the information that has been submitted to us is accurate. Our audit and inspection processes are designed to

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identify material variances from lease terms as well as differences between the information reported to us and the actual results from each property. Our audits and inspections, however, are in periods subsequent to when the revenue is reported and any adjustment identified by these processes might be in a reporting period different from when the royalty revenue was initially recorded.

Our royalty revenues are affected by changes in long-term and spot commodity prices, production volumes, unseasonal weather, lessees supply contracts and the royalty rates in our leases. The prevailing prices for coal and oil and gas depend on a number of factors, including the supply-demand relationship, the price and availability of alternative fuels, global economic conditions and governmental regulations. The prevailing price for aggregates generally depends on local economic conditions. In addition to their royalty obligation, our lessees are often subject to pre-established minimum monthly, quarterly or annual payments. These minimum rentals reflect amounts we are entitled to receive even if no mining activity occurred during the period. Minimum rentals are usually credited against future royalties that are earned as minerals are produced. We do not receive minimum royalties with respect to our oil and gas properties, but do typically receive bonus payments at the time of execution of the lease.

Because we do not operate any mines, we do not bear ordinary operating costs and have limited direct exposure to environmental, permitting and labor risks. As operators, our lessees are subject to environmental laws, permitting requirements and other regulations adopted by various governmental authorities. In addition, the lessees generally bear all labor-related risks, including retiree health care legacy costs, black lung benefits and workers compensation costs associated with operating the mines on our coal and aggregate properties. We typically pay property taxes and then are reimbursed by the lessee for the taxes on their leased property, pursuant to the terms of the lease.

Our business is not seasonal, although at times severe or abnormal weather can cause a short-term decrease in production by our lessees due to the weather s negative impact on production and transportation.

Acquisitions

We are a growth-oriented company and have completed a number of acquisitions over the last several years. For a discussion of our recent acquisitions, please see Recent Acquisitions in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Coal Royalty Revenues, Reserves and Production

The following table sets forth coal royalty revenues and average coal royalty revenue per ton from the properties that we owned or controlled for the years ending December 31, 2011, 2010 and 2009. Coal royalty revenues were generated from the properties in each of the areas as follows:

	Coal Royalty Revenues For the Years Ended December 31,			Average Coal Royalty Revenue Per Ton For the Years Ended December 31,		
	2011	2010	2009	2011	2010	2009
	(In thousands)			($ per ton)		
Area						
Appalachia						
Northern	$ 20,578	$ 18,676	$ 14,959	$ 3.92	$ 3.81	$ 3.03
Central	196,789	144,934	132,543	6.66	5.36	4.73
Southern	11,717	19,405	19,382	6.91	6.87	6.00
Total Appalachia	229,084	183,015	166,884	6.28	5.26	4.61
Illinois Basin	41,324	30,210	22,019	4.38	3.90	3.31
Northern Powder River Basin	7,658	8,444	7,718	2.86	1.89	1.94
Gulf Coast	1,155	92		2.21	1.77	
Total	$ 279,221	$ 221,761	$ 196,621	$ 5.68	$ 4.71	$ 4.20

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The following table sets forth production data and reserve information for the properties that we owned or controlled for the years ending December 31, 2011, 2010 and 2009. All of the reserves reported below are recoverable reserves as determined by Industry Guide 7. In excess of 90% of the reserves listed below are currently leased to third parties. Coal production data and reserve information for the properties in each of the areas are as follows:

Production and Reserves

	Production for the Year Ended December 31,			Proven and Probable Reserves at December 31, 2011		
	2011	2010	2009	Underground	Surface	Total
	(Tons in thousands)					
Area						
Appalachia						
Northern	5,251	4,900	4,943	488,444	6,019	494,463
Central	29,555	27,056	28,032	1,054,129	226,829	1,280,958
Southern	1,695	2,824	3,233	98,127	25,340	123,467
Total Appalachia	36,501	34,780	36,208	1,640,700	258,188	1,898,888
Illinois Basin	9,445	7,753	6,656	262,284	14,143	276,427
Northern Powder River Basin	2,682	4,467	3,984		102,158	102,158
Gulf Coast(1)	523	52				
Total	49,151	47,052	46,848	1,902,984	374,489	2,277,473

(1) Includes lignite acquired in the BRP acquisition. Due to the number of mineral acres involved in the BRP transaction, we have not completed an analysis of the reserve quantity and quality for each mineral that was acquired. As a result, the reserves held by BRP are not included in the statistical information in this Form 10-K. We plan to complete a review of the BRP reserves by the end of 2012.

We classify low sulfur coal as coal with a sulfur content of less than 1.0%, medium sulfur coal as coal with a sulfur content between 1.0% and 1.5% and high sulfur coal as coal with a sulfur content of greater than 1.5%. Compliance coal is coal which meets the standards of Phase II of the Clean Air Act and is that portion of low sulfur coal that, when burned, emits less than 1.2 pounds of sulfur dioxide per million Btu. As of December 31, 2011, approximately 51% of our reserves were low sulfur coal and 34% of our reserves were compliance coal. Unless otherwise indicated, we present the quality of the coal throughout this Form 10-K on an as-received basis, which assumes 6% moisture for Appalachian reserves, 12% moisture for Illinois Basin reserves and 25% moisture for Northern Powder River Basin reserves. We own both steam and metallurgical coal reserves in Northern, Central and Southern Appalachia, and we own steam coal reserves in the Illinois Basin and the Northern Powder River Basin. In 2011, approximately 34% of the production and 45% of the coal royalty revenues from our properties were from metallurgical coal.

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The following table sets forth our estimate of the sulfur content, the typical quality of our coal reserves and the type of coal in each area as of December 31, 2011.

Sulfur Content, Typical Quality and Type of Coal

	Sulfur Content					Typical Quality		Type of Coal	
Area	Compliance Coal(1)	Low (less than 1.0%)	Medium (1.0% to 1.5%)	High (greater than 1.5%)	Total	Heat Content (Btu per pound)	Sulfur (%)	Steam	Metallurgical(2)
	(Tons in thousands)							(Tons in thousands)	
Appalachia									
Northern	40,048	48,615	20,708	425,140	494,463	12,879	2.73	484,901	9,562
Central	648,486	910,843	318,396	51,719	1,280,958	13,272	0.89	884,103	396,855
Southern	85,654	91,743	28,209	3,515	123,467	13,506	0.82	80,396	43,071
Total Appalachia	774,188	1,051,201	367,313	480,374	1,898,888	13,185	1.36	1,449,400	