

NATURAL RESOURCE PARTNERS LP

Form 10-Q

November 05, 2009

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

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2009

**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  
(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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer     Accelerated filer     Non-accelerated filer     Smaller reporting company  
(Do not check if a 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 November 5, 2009 there were 69,451,136 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 for the year ended December 31, 2008 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)

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 60,880	\$ 89,928
Accounts receivable, net of allowance for doubtful accounts	29,873	31,883
Accounts receivable affiliate	2,211	1,351
Other	254	934
Total current assets	93,218	124,096
Land	24,343	24,343
Plant and equipment, net	69,087	67,204
Coal and other mineral rights, net	1,157,092	979,692
Intangible assets, net	162,779	102,828
Loan financing costs, net	3,005	2,679
Other assets, net	599	498
Total assets	\$ 1,510,123	\$ 1,301,340
 <b>LIABILITIES AND PARTNERS CAPITAL</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 927	\$ 861
Accounts payable affiliates	156	365
Obligation related to acquisition	11,843	
Current portion of long-term debt	32,235	17,235
Accrued incentive plan expenses current portion	4,235	3,179
Property, franchise and other taxes payable	4,490	6,122
Accrued interest	3,362	6,419
Total current liabilities	57,248	34,181
Deferred revenue	51,060	40,754
Accrued incentive plan expenses	5,594	4,242
Long-term debt	620,587	478,822
Partners capital:		
Common units outstanding: (69,451,136 in 2009, 64,891,136 in 2008)	757,550	719,341
General partner's interest	13,717	13,579
Holder of incentive distribution rights	4,977	11,069
Accumulated other comprehensive loss	(610)	(648)

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Total partners' capital	775,634	743,341
Total liabilities and partners' capital	\$ 1,510,123	\$ 1,301,340

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)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>			
Revenues:				
Coal royalties	\$ 49,307	\$ 58,323	\$ 148,294	\$ 167,501
Aggregate royalties	1,700	2,280	4,697	7,575
Coal processing fees	1,508	2,044	5,808	5,698
Transportation fees	3,049	3,183	8,634	8,193
Oil and gas royalties	1,203	2,201	3,649	5,579
Property taxes	3,311	2,263	9,036	7,760
Minimums recognized as revenue	775	737	1,065	1,193
Override royalties	2,077	3,133	5,961	7,638
Other	1,032	2,032	3,038	4,706
Total revenues	63,962	76,196	190,182	215,843
Operating costs and expenses:				
Depreciation, depletion and amortization	12,952	17,042	48,026	48,849
General and administrative	4,586	1,732	17,926	12,771
Property, franchise and other taxes	4,273	2,822	11,399	10,569
Transportation costs	403	431	1,144	960
Coal royalty and override payments	353	287	1,214	939
Total operating costs and expenses	22,567	22,314	79,709	74,088
Income from operations	41,395	53,882	110,473	141,755
Other income (expense):				
Interest expense	(10,762)	(6,912)	(29,516)	(21,336)
Interest income	18	368	196	1,124
Net income	\$ 30,651	\$ 47,338	\$ 81,153	\$ 121,543
Net income attributable to:				
General partner	\$ 513	\$ 738	\$ 1,052	\$ 1,854
Holders of incentive distribution rights	\$ 4,977	\$ 10,446	\$ 28,538	\$ 28,845
Limited partners	\$ 25,161	\$ 36,154	\$ 51,563	\$ 90,844
Basic and diluted net income per limited partner unit	\$ 0.36	\$ 0.55	\$ 0.77	\$ 1.40
Weighted average number of units outstanding	69,451	64,891	67,113	64,891





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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	
Cash flows from operating activities:		
Net income	\$ 81,153	\$ 121,543
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	48,026	48,849
Non-cash interest charge, net	1,336	266
Loss from disposition of assets		32
Change in operating assets and liabilities:		
Accounts receivable	(20)	(11,294)
Other assets	579	892
Accounts payable and accrued liabilities	(143)	447
Accrued interest	(3,214)	(3,199)
Deferred revenue	10,306	3,989
Accrued incentive plan expenses	2,408	(506)
Property, franchise and other taxes payable	(1,632)	(1,876)
Net cash provided by operating activities	138,799	159,143
Cash flows from investing activities:		
Acquisition of land, coal and other mineral rights	(114,986)	
Acquisition or construction of plant and equipment	(1,157)	(9,952)
Net cash used in investing activities	(116,143)	(9,952)
Cash flows from financing activities:		
Proceeds from loans	325,000	
Deferred financing costs	(661)	
Repayment of loans	(168,235)	(17,235)
Retirement of obligation related to acquisitions	(63,000)	
Costs associated with issuance of units	(21)	
Distributions to partners	(144,787)	(125,885)
Net cash used in financing activities	(51,704)	(143,120)
Net increase (decrease) in cash and cash equivalents	(29,048)	6,071
Cash and cash equivalents at beginning of period	89,928	58,341
Cash and cash equivalents at end of period	\$ 60,880	\$ 64,412
Supplemental cash flow information:		
Cash paid during the period for interest	\$ 31,316	\$ 24,179

Non-cash investing activities:		
Equity issued for acquisitions	\$ 95,910	\$
Liability assumed in acquisitions	1,170	
Non-cash financing activities:		
Obligation related to purchase of coal reserves and infrastructure	\$ 74,022	

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 nine months ended September 30, 2009 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 2008 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 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. Recent Accounting Pronouncements**

In September 2006, the FASB issued a new fair value standard, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard eliminates inconsistencies found in various prior pronouncements but does not require any new fair value measurements. This standard was effective for the Partnership on January 1, 2008, but in February 2008, the FASB, permitted entities to delay application of this new standard to fiscal years beginning after November 15, 2008, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On January 1, 2009, the Partnership began applying the new fair value requirements to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed on a recurring basis.

On April 9, 2009, the FASB issued authoritative guidance that requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This authoritative guidance also requires those disclosures in summarized financial information at interim reporting periods. This authoritative guidance was effective for interim reporting periods ending after June 15, 2009, and requires that the Partnership provide fair value footnote disclosure related to its outstanding debt quarterly but will otherwise not materially impact the financial statements. Fair value measurements are disclosed in Note 8. Fair Value Measurements.

In December 2007, the FASB issued a new business combination standard that establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Partnership adopted this standard on January 1, 2009 and, therefore, acquisitions accounted for as business combinations that are completed by the Partnership in 2009 and thereafter will be impacted by this new standard.



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In December 2007, the FASB issued a new standard that establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This authoritative guidance was effective for the Partnership on January 1, 2009. The adoption did not impact the financial statements.

In June 2008, the FASB issued new authoritative guidance determining whether instruments granted in share-based payment transactions are participating securities. This authoritative guidance affects entities that accrue cash dividends on share-based payment awards during the awards service period when the dividends do not need to be returned if the employees forfeit the award. This authoritative guidance requires that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and are considered participating securities. Because the awards are considered participating securities, the issuing entity is required to apply the two-class method of computing basic and diluted earnings per share. The provisions of this authoritative guidance were effective for the Partnership on January 1, 2009, but because distributions accrued on the Partnership's share-based payment awards are subject to forfeiture, the adoption did not impact earnings per unit.

In May 2009, the FASB issued a subsequent events standard, which established general standards of accounting for and disclosure of events that occur subsequent to the balance sheet date but before financial statements are issued. This standard defines (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Under this standard, a public reporting entity shall evaluate subsequent events through the date the financial statements are issued. The Partnership adopted this standard for the quarter ended June 30, 2009. The adoption did not impact the financial position, results of operations or cash flows. As disclosed in Note 15. Subsequent Events, the Partnership evaluated events that have occurred subsequent to September 30 through the time of filing on November 5, 2009.

In June 2009, the FASB issued a new standard that establishes the Codification as the source of authoritative U.S. accounting and reporting standards recognized by the FASB for use in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities law are also sources of authoritative GAAP for SEC registrants. This standard is effective for interim and annual reporting periods after September 15, 2009. This standard had no impact on the Partnership's financial position, results of operations or cash flows.

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. Significant Acquisitions**

*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. Upon closing of the first transaction, NRP paid \$10.0 million, funded through its credit facility, and acquired approximately 3.3 million tons of reserves associated with the initial production from the mine. 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. As of September 30, 2009, the Partnership had funded \$12.0 million of the acquisition with borrowings under the Partnership's credit facility. The remaining payments are expected to be made over the next six months upon completion of certain development milestones.

*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 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.

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*Macoupin* In January 2009, the Partnership acquired 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.

**4. Plant and Equipment**

The Partnership's plant and equipment consist of the following:

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Construction in process	\$	\$ 8,524
Plant and equipment at cost	84,732	68,197
Accumulated depreciation	(15,645)	(9,517)
Net book value	\$ 69,087	\$ 67,204

	<b>Nine months ended September 30, 2009 2008</b>	
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Total depreciation expense on plant and equipment	\$ 6,128	\$ 3,707

**5. Coal and Other Mineral Rights**

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

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Coal and other mineral rights	\$ 1,457,171	\$ 1,253,314
Less accumulated depletion and amortization	(300,079)	(273,622)
Net book value	\$ 1,157,092	\$ 979,692

	<b>Nine months ended September 30, 2009 2008</b>	
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Total depletion and amortization expense on coal and other mineral rights	\$ 39,521	\$ 42,718

Included in depletion in 2009 is a one time charge of \$8.2 million related to a terminated lease resulting from a mine closure.



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

	September 30, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)		(In thousands)	
	(Unaudited)			
Finite-lived intangible assets				
Above market transportation contracts	\$ 127,169	\$ 5,055	\$ 82,276	\$ 3,683
Above market coal leases	42,717	2,052	25,281	1,046
	\$ 169,886	\$ 7,107	\$ 107,557	\$ 4,729

As a part of the acquisition of coal reserves and transportation assets in the first nine months of 2009, the Partnership acquired additional above market transportation contracts valued at \$44.9 million and two above market coal leases valued at \$17.5 million.

Amortization expense related to contract intangibles was \$0.8 million and \$0.9 million and \$2.4 million and \$2.4 million for the three and nine months ended September 30, 2009 and 2008, respectively, and 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, unaudited):

For remainder of year ended December 31, 2009	\$1,372
For year ended December 31, 2010	5,026
For year ended December 31, 2011	5,390
For year ended December 31, 2012	5,390
For year ended December 31, 2013	5,390
For year ended December 31, 2014	5,390

**7. Long-Term Debt**

Long-term debt consists of the following:

	September 30, 2009	December 31, 2008
	(In thousands)	
	(Unaudited)	
\$300 million floating rate revolving credit facility, due March 2012	\$ 22,000	\$ 48,000
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	49,750
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	
	84,615	92,308

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5.05% senior notes, with semi-annual interest payments in January and July, with annual principal payments in July, maturing in July 2020		
5.31% utility local improvement obligation, with annual principal and interest payments, maturing in March 2021	2,307	2,499
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	43,500
5.82% senior notes, with semi-annual interest payments in March and September, with scheduled principal payments beginning March 2010, maturing in March 2024	225,000	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	
Total debt	652,822	496,057
Less current portion of long term debt	(32,235)	(17,235)
Long-term debt	\$ 620,587	\$ 478,822

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The Partnership has a \$300 million revolving credit facility, and at September 30, 2009, \$278 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 commitment to a maximum of \$450 million on the same terms.

In March 2009, the Partnership completed a private placement of \$200 million of senior unsecured notes. Two tranches of amortizing senior notes were issued: \$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 principal payments of \$7.7 million and \$17.2 million on its senior notes for the three and nine months ended September 30, 2009.

The Partnership was in compliance with all terms under its long-term debt as of September 30, 2009.

### **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 \$582.4 million and \$385.5 million at September 30