

NATURAL RESOURCE PARTNERS LP

Form 10-Q

November 02, 2007

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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, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

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 2, 2007 there were outstanding 53,537,502 Common Units and 11,353,634 Subordinated Units.

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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 which are also forward-looking statements.

Such forward-looking statements include, among other things, statements regarding capital expenditures, acquisitions and dispositions, expected commencement dates of coal mining, projected quantities of future coal production by our lessees producing coal from our reserves and projected demand or supply for coal 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 our Form 10-K for the year ended December 31, 2006 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, 2007 (Unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 54,377	\$ 66,044
Restricted cash	6,240	
Accounts receivable, net of allowance for doubtful accounts	30,003	23,357
Accounts receivable affiliate	1,009	21
Other	237	1,411
Total current assets	91,866	90,833
Land	24,532	17,781
Plant and equipment, net	61,650	29,615
Coal and other mineral rights, net	1,004,081	798,135
Intangible assets, net	111,179	
Loan financing costs, net	3,202	2,197
Other assets, net	825	932
Total assets	\$ 1,297,335	\$ 939,493
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,550	\$ 1,041
Accounts payable affiliate	368	105
Current portion of long-term debt	17,234	9,542
Accrued incentive plan expenses current portion	4,260	5,418
Property, franchise and other taxes payable	4,634	4,330
Accrued interest	3,680	3,846
Total current liabilities	32,726	24,282
Deferred revenue	31,461	20,654
Asset retirement obligation	39	
Accrued incentive plan expenses	5,599	4,579
Long-term debt	473,057	454,291
Partners capital:		
Common units	661,094	338,912
Subordinated units	78,701	83,772
General partners interest	15,418	12,138
Holders of incentive distribution rights	(48)	1,616

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Accumulated other comprehensive loss	(712)	(751)
Total partners' capital	754,453	435,687
Total liabilities and partners' capital	\$ 1,297,335	\$ 939,493

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>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>			
Revenues:				
Coal royalties	\$ 44,378	\$ 36,902	\$ 126,084	\$ 112,539
Aggregate royalties	2,096		5,785	
Coal processing fees	1,374	203	3,404	203
Transportation fees	1,000		2,306	
Oil and gas royalties	1,388	853	3,924	3,500
Property taxes	2,963	1,532	7,836	4,827
Minimums recognized as revenue	913	633	1,698	1,254
Override royalties	953	283	2,994	767
Other	1,301	1,085	3,639	5,911
<b>Total revenues</b>	<b>56,366</b>	<b>41,491</b>	<b>157,670</b>	<b>129,001</b>
Operating costs and expenses:				
Depreciation, depletion and amortization	13,045	7,009	37,324	22,098
General and administrative	3,687	3,475	15,880	11,010
Property, franchise and other taxes	3,993	2,142	10,618	6,486
Transportation costs	79		149	
Coal royalty and override payments	246	296	914	1,250
<b>Total operating costs and expenses</b>	<b>21,050</b>	<b>12,922</b>	<b>64,885</b>	<b>40,844</b>
<b>Income from operations</b>	<b>35,316</b>	<b>28,569</b>	<b>92,785</b>	<b>88,157</b>
Other income (expense)				
Interest expense	(7,124)	(3,960)	(21,584)	(11,253)
Interest income	736	665	2,239	1,938
<b>Net income</b>	<b>\$ 28,928</b>	<b>\$ 25,274</b>	<b>\$ 73,440</b>	<b>\$ 78,842</b>
Net income attributable to:				
General partner <sup>(1)</sup>	\$ 4,119	\$ 2,641	\$ 10,012	\$ 6,989
Other holders of incentive distribution rights <sup>(1)</sup>	\$ 1,907	\$ 1,150	\$ 4,602	\$ 2,914
Limited partners	\$ 22,902	\$ 21,483	\$ 58,826	\$ 68,939
Basic and diluted net income per limited partner unit:				
Common	\$ 0.35	\$ 0.42	\$ 0.91	\$ 1.36
Subordinated	\$ 0.35	\$ 0.42	\$ 0.91	\$ 1.36
Weighted average number of units outstanding:				

Common	53,537	33,651	53,009	33,651
Subordinated	11,354	17,030	11,354	17,030

(1) Other holders of the incentive distribution rights (IDRs) include the WPP Group (25%) and NRP Investment LP (10%). The net income allocated to the general partner includes the general partner's portion of the IDRs (65%).

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)

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>	
Cash flows from operating activities:		
Net income	\$ 73,440	\$ 78,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	37,324	22,098
Non-cash interest charge	326	288
Gain on sale of timber assets		(2,634)
Change in operating assets and liabilities:		
Accounts receivable	(7,634)	(2,439)
Other assets	883	525
Accounts payable and accrued liabilities	(217)	235
Accrued interest	(166)	2,237
Deferred revenue	10,807	1,033
Accrued incentive plan expenses	(138)	2,506
Property, franchise and other taxes payable	304	(147)
Net cash provided by operating activities	114,929	102,544
Cash flows from investing activities:		
Acquisition of land, plant and equipment, coal and other mineral rights	(40,068)	(105,839)
Proceeds from sale of timber assets		4,761
Cash placed in restricted accounts	(6,240)	
Net cash used in investing activities	(46,308)	(101,078)
Cash flows from financing activities:		
Proceeds from loans	262,400	103,000
Deferred financing costs	(1,292)	
Repayment of loans	(235,942)	(24,350)
Distributions to partners	(108,099)	(67,023)
Contribution by general partner	2,645	
Net cash (used in) provided by financing activities	(80,288)	11,627
Net increase (decrease) in cash and cash equivalents	(11,667)	13,093
Cash and cash equivalents at beginning of period	66,044	47,691
Cash and cash equivalents at end of period	\$ 54,377	\$ 60,784
Supplemental cash flow information:		
Cash paid during the period for interest	\$ 21,379	\$ 8,702

Non-cash investing activities:

Units issued in business combinations	\$ 350,741	\$
Liability assumed in business combination	1,989	

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, 2007 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 2006 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. Summary of Significant Accounting Policies**

***Reclassification***

In the current year financial statements, the Partnership has added a line item for coal processing revenues and has conformed the prior year's financial statements to reclassify certain revenues as coal processing revenues rather than as other income.

***Business Combinations***

For purchase acquisitions accounted for as a business combination, the Partnership is required to record the assets acquired, including identified intangible assets and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. The determination of the useful lives of intangible assets is subjective, as is the appropriate amortization method for such intangible assets. In addition, purchase acquisitions may result in goodwill, which is subject to ongoing periodic impairment testing based on the fair value of net assets acquired compared to the carrying value of goodwill. For additional discussion concerning our valuation of intangible assets, see Note 6, Intangible Assets.

***New Accounting Standard***

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Partnership has not yet determined the impact on its financial statements of adopting SFAS No. 159 effective January 1, 2008.



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**3. Significant Acquisitions**

The following briefly describes the Partnership's acquisition activity for the nine months ended September 30, 2007:

*Cheyenne Resources.* On August 20, 2007, the Partnership acquired a rail load-out facility and rail spur from Cheyenne Resources for \$5.5 million. This facility is located in Perry County, Kentucky.

*Mid-Vol Coal Preparation Plant.* On May 21, 2007, the Partnership signed an agreement for the construction of a coal preparation plant, coal handling infrastructure and a rail load-out facility under its memorandum of understanding with Taggart Global USA, LLC. Consideration for the facility, located near Eckman, WV, is estimated to be approximately \$16.2 million, of which \$10.3 million has been paid for construction costs incurred to date.

*Mettiki.* On April 3, 2007, the Partnership acquired approximately 35 million tons of coal reserves in Grant and Tucker Counties in Northern West Virginia for total consideration of 500,000 common units and approximately \$10.2 million in cash. The assets were acquired from Western Pocahontas Properties Limited Partnership under the Partnership's omnibus agreement. Western Pocahontas Properties retained an overriding royalty interest on approximately 16 million tons of non-permitted reserves, which will be offered to the Partnership at the time those reserves are permitted.

*Westmoreland.* On February 27, 2007, the Partnership acquired an overriding royalty on 225 million tons of coal in the Powder River Basin from Westmoreland Coal Company for \$12.7 million in cash. The reserves are located in the Rocky Butte Reserve in Wyoming.

*Dingess-Rum.* On January 16, 2007, the Partnership acquired 92 million tons of coal reserves and approximately 33,700 acres of surface and timber in Logan, Clay and Nicholas Counties in West Virginia from Dingess-Rum Properties, Inc. As consideration for the acquisition, the Partnership issued 4,800,000 common units to Dingess-Rum.

*Cline.* On January 4, 2007, the Partnership acquired 49 million tons of coal reserves in Williamson County, Illinois and Mason County, West Virginia that are leased to affiliates of The Cline Group. In addition, it acquired transportation assets and related infrastructure at those mines. As consideration for the transaction the Partnership issued 7,826,160 common units and 1,083,912 Class B units representing limited partner interests in NRP. The Class B units were converted to common units during the second quarter.

The Dingess-Rum and Cline acquisitions were accounted for as business combinations. In accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*, the Company continued the process of identifying and valuing the assets received in the transaction and refining the value of the consideration exchanged. Among other changes, this process resulted in the identification of certain additional intangible assets related to future revenue and an increase in the discount percentage applied to the common units issued as consideration. The impact of the changes resulted in an increase in finite-lived intangible assets and the elimination of the amount of goodwill recorded during the first quarter based on the initial valuation.

The Partnership is continuing to evaluate the purchase price allocations for the acquisitions completed during the first quarter that were accounted for as business combinations and will further adjust the allocations if additional information relative to the fair market values of the assets and liabilities of the businesses become known or other information related to the fair value of consideration is received.

The Cline transaction included the acquisition of four entities, none of which had conducted operations or generated material amounts of revenue or operating cost prior to acquisition. Total net operating losses of the four entities from startup through December 31, 2006 were \$0.3 million. In the Dingess-Rum transaction, the Partnership acquired a group of assets from an entity that was formed for purposes of the transaction. That entity did not operate the assets acquired. Therefore, unaudited pro forma information of prior periods is not presented as it would not differ

materially from the historic operations of the Partnership.

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The following table summarizes the aggregate estimated fair values of the assets acquired and liabilities assumed for each of the transactions accounted for as a business combination as of September 30, 2007:

	<b>Dingess-Rum</b>	<b>Cline</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Land, plant and equipment	\$ 7,935	\$ 17,783
Coal and other mineral rights	105,573	94,463
Other assets		72
Intangible assets		111,960
Equity consideration	113,396	221,089
Transaction costs and liabilities assumed	112	3,189

**4. Plant and Equipment**

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

	<b>September</b>	<b>December</b>
	<b>30,</b>	<b>31,</b>
	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Plant and equipment at cost	\$ 65,128	\$ 30,266
Accumulated depreciation	(3,478)	(651)
Net book value	\$ 61,650	\$ 29,615

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Total depreciation expense on plant and equipment	\$ 2,827	\$ 272

**5. Coal and Other Mineral Rights**

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

	<b>September</b>	<b>December</b>
	<b>30,</b>	<b>31,</b>
	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Coal and other mineral rights	\$ 1,209,531	\$ 970,342
Less accumulated depletion and amortization	(205,450)	(172,207)
Net book value	\$ 1,004,081	\$ 798,135

	<b>Nine months ended</b>	
	<b>September 30,</b>	<b>September 30,</b>
	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Total depletion and amortization expense on coal and other mineral interests	\$ 33,243	\$ 21,337



**Table of Contents****6. Intangible Assets**

During January 2007, the Partnership completed a business combination in which certain intangible assets were identified related to the royalty and lease rates of contracts acquired when compared to the estimate of current market rates for similar contracts. The estimated fair value of the above-market rate contracts was determined based on the present value of future cash flow projections related to the underlying coal reserves and transportation infrastructure acquired. In addition, in the second quarter, as part of the continuing identification of the assets acquired and refining the value of the consideration exchanged in the transaction, other intangible assets related to future revenues from the contractual rights to an area of mutual interest were identified, quantified and recorded. Amounts recorded as intangible assets along with the balances and accumulated amortization at September 30, 2007 are reflected in the table below.

	<b>As of September 30, 2007</b>	
	<b>Gross</b>	
	<b>Carrying</b>	<b>Accumulated</b>
	<b>Amount</b>	<b>Amortization</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
Finite-lived intangible assets		
Above market transportation contracts	\$ 80,525	\$ 604
Above market coal leases	25,132	177
Contractual rights to an area of mutual interest	6,303	
	\$ 111,960	\$ 781

Amortization expense related to these contract intangibles was \$332,000 and \$781,000 for the three-month and nine-month periods ended September 30, 2007 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)	
For remainder of year ended December 31, 2007	\$ 332
For year ended December 31, 2008	7,095
For year ended December 31, 2009	7,076
For year ended December 31, 2010	7,418
For year ended December 31, 2011	7,577
For year ended December 31, 2012	7,855

**7. Two-For-One Limited Partner Unit Split**

On March 6, 2007 the Board of Directors approved a two-for-one split for all of the Partnership's outstanding units. The unit split was effective for unitholders at the close of business on April 9, 2007 and entitled them to receive one additional unit for each unit held at that date. The additional units were distributed on April 18, 2007. All unit and per unit information in the accompanying financial statements, including distributions per unit, have been adjusted to retroactively reflect the impact of the two-for-one split.

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Long-term debt consists of the following:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
\$300 million floating rate revolving credit facility, due March 2012	\$ 25,000	\$ 214,000
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	55,800	61,850
5.05% senior notes, with semi-annual interest payments in January and July, with scheduled principal payments beginning July 2008, maturing in July 2020	100,000	100,000
5.31% utility local improvement obligation, with annual principal and interest payments, maturing in March 2021	2,691	2,883
5.55% senior notes, with semi-annual interest payments in June and December, with annual principal payments in June, maturing in June 2023	46,800	50,100
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	
Total debt	490,291	463,833
Less current portion of long term debt	(17,234)	(9,542)
Long-term debt	\$ 473,057	\$ 454,291

On March 28, 2007, the Partnership completed an amendment and extension of its \$300 million revolving credit facility. The amendment extends the term of the credit facility by two years to 2012 and lowers borrowing costs and commitment fees. The amendment also includes an option to increase the credit facility at least twice a year up to a maximum of \$450 million under the same terms, as well as an annual option to extend the term by one year.

The Partnership also issued \$225 million in 5.82% senior notes on March 28, 2007, with semi-annual interest payments in March and September and scheduled principal payments beginning March 2010. The Partnership used the proceeds to pay down its credit facility.

At September 30, 2007, the Partnership had a \$25.0 million outstanding balance on its revolving credit 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.

The Partnership was in compliance with all terms under its long-term debt as of September 30, 2007.

**9. Net Income Per Unit Attributable to Limited Partners**

Net income per unit attributable to limited partners is based on the weighted-average number of units outstanding during the period and is allocated in the same ratio as quarterly cash distributions are made. Net income per unit attributable to limited partners is computed by dividing net income attributable to limited partners, after deducting the general partner's 2% interest and incentive distributions, by the weighted-average number of limited partnership units outstanding. Basic and diluted net income per unit attributable to limited partners are the same since the Partnership has no potentially dilutive securities outstanding. All per unit amounts have been restated to reflect the two-for-one split of limited partner units.

On May 22, 2007, the 1,083,912 Class B units issued in connection with the Cline acquisition were converted to common units, after which there were no Class B units outstanding. Net income per unit at March 31 and June 30,

2007 included a separate presentation for Class B units. For those periods, the Class B units participated in distributions and earnings on the same basis as the Partnership's common units. For purposes of presentation of earnings per unit for the three and nine-month periods ended September 30, 2007, the Class B units are reflected as incremental common units outstanding since January 4, 2007, the date of issuance.

**Table of Contents****10. Related Party Transactions*****Reimbursements to Affiliates of its 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's agreement, its 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 its general partner and its affiliates. Reimbursements to affiliates of the Partnership's general partner may be substantial and will reduce the cash available for distribution to unitholders.

The reimbursements to affiliates of the Partnership's general partner for services performed by Western Pocahontas Properties and Quintana Minerals Corporation totaled \$1.2 million and \$1.0 million for the three month periods ended September 30, 2007 and 2006, respectively and \$3.8 million and \$3.0 million for the nine month periods ended September 30, 2007 and 2006, respectively.

***Transactions with Cline Affiliates***

Williamson Energy, LLC, a company controlled by Chris Cline, leases coal reserves from the Partnership, and the Partnership provides transportation services to Williamson for a fee. Mr. Cline, through another affiliate, Adena Minerals, LLC, owns a 22% interest in the Partnership's general partner and in the incentive distribution rights of the Partnership, as well as 8,910,072 common units. At September 30, 2007, the Partnership had accounts receivable totaling \$0.2 million from Williamson. For the three and nine month periods ended September 30, 2007, the Partnership had total revenue of \$1.0 million and \$2.2 million from Williamson. In addition, the Partnership also received \$4.0 million in advance minimum royalty payments that have not been recouped.

Gatling, LLC, a company also controlled by Chris Cline, leases coal reserves from the Partnership and the Partnership provides transportation services to Gatling for a fee. At September 30, 2007, the Partnership had accounts receivable totaling \$0.3 million from Gatling. For the three and nine month periods ended September 30, 2007, the Partnership had total revenue of \$0.8 million and \$1.9 million from Gatling, LLC. In addition, the Partnership also received \$4.2 million in advance minimum royalty payments that have not been recouped.

***Quintana Energy Partners, L.P.***

In 2006, Corbin J. Robertson, Jr. formed Quintana Energy Partners, L.P., or QEP, a private equity fund focused on investments in the energy business. In connection with the formation of QEP, the Partnership's general partner's board of directors adopted a conflicts policy that establishes the opportunities that will be pursued by NRP and those that will be pursued by QEP. For a more detailed description of this policy, please see Item 13. Certain Relationships and Related Transactions, and Director Independence in the Partnership's Form 10-K.

In February 2007, QEP acquired a significant membership interest in Taggart Global USA, LLC, including the right to nominate two members of Taggart's 5-person board of directors. The Partnership currently has a memorandum of understanding with Taggart pursuant to which the two companies have agreed to jointly pursue the development of coal handling and preparation plants. The Partnership will own and lease the plants to Taggart, which will design, build and operate the plants. The lease payments are based on the sales price for the coal that is processed through the facilities. To date, the Partnership has acquired three facilities under this agreement with Taggart, and for the three and nine month periods ended September 30, 2007, the Partnership received total revenue of \$0.8 million and \$1.9 million, respectively from Taggart. At September 30, 2007, the Partnership had accounts receivable totaling \$0.4 million from Taggart.

In July 2007, QEP acquired a controlling interest in Kopper-Glo Fuel, Inc., a coal operating company that is one of the Partnership's lessees. For the three and nine month periods ended September 30, 2007, we had total revenue of \$0.4 million and \$1.4 million from Kopper-Glo, and at September 30, 2007, the Partnership had accounts receivable totaling \$0.1 million from Kopper-Glo.

**Table of Contents****11. Commitments and Contingencies*****Gatling Ohio Commitment***

The Partnership has signed a definitive agreement to purchase the coal reserves and transportation infrastructure at Cline's Gatling Ohio complex. This transaction will close upon commencement of coal production, which is currently expected to occur in 2008. At the time of closing, the Partnership will issue to Adena Minerals 4,560,000 additional units, and the general partner of the Partnership will issue to Adena Minerals an additional 9% interest in the general partner and the incentive distribution rights.

***Legal***

The Partnership is involved, from time to time, in various other 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.

***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 September 30, 2007. The Partnership is not associated with any environmental contamination that may require remediation costs.

**12. Major Lessees**

Revenues from major lessees that exceeded ten percent of total revenues for the periods indicated below are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
	Revenues	Percent	Revenues	Percent	Revenues	Percent	Revenues	Percent
	Dollars in thousands				Dollars in thousands			
	(Unaudited)				(Unaudited)			
Lessee A	\$9,044	16%	\$ 117	<1%	\$23,588	15%	\$ 2,289	2%
Lessee B	5,246	9%	5,886	14%	15,916	10%	17,257	13%
Lessee C	3,587	6%	4,002	10%	11,040	7%	11,427	9%

**13. 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 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 compensation 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 compensation 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

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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 compensation committee provides otherwise.

A summary of activity in the outstanding grants for the first nine months of 2007 are as follows:

Outstanding grants at the beginning of the period	515,220
Grants during the period	174,002
Grants vested and paid during the period	(181,356)
Forfeitures during the period	(400)
Outstanding grants at the end of the period	507,466

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 3.87% to 3.99% and 26.64% to 30.06%, respectively at September 30, 2007. The Partnership's historic dividend rate of 5.23% was used in the calculation at September 30, 2007. The Partnership accrued expenses related to its plans to be reimbursed to its general partner of \$0.2 million and \$0.8 million for the three months ended September 30, 2007 and 2006, respectively and \$5.0 million and \$3.0 million for the nine month periods ended September 30, 2007 and 2006, respectively. Included in the first quarter of 2006 was \$661,000 related to the cumulative effect of the change in accounting method for the adoption of FAS 123R. In connection with the Long-Term Incentive Plans, cash payments of \$5.8 million and \$0.8 million were paid during each of the nine month periods ended September 30, 2007 and 2006, respectively. The unaccrued cost associated with the outstanding grants at September 30, 2007 was \$9.1 million.

**14. Distributions**

On August 14, 2007, the Partnership paid a cash distribution equal to \$0.465 per unit to unitholders of record on August 1, 2007.

**15. Subsequent Events**

On October 18, 2007, the Partnership declared a third quarter 2007 distribution of \$0.475 per unit. The distribution will be paid on November 14, 2007 to unitholders of record on November 1, 2007.

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**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. Form 10-K, as filed on February 28, 2007.*

**Executive Overview**

***Our Business***

We engage 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. As of December 31, 2006, we owned or controlled approximately 2.1 billion tons of proven and probable coal reserves in eleven states, and 60% of our reserves were low sulfur coal. We lease coal reserves to experienced mine operators under long-term leases that grant the operators the right to mine and sell coal from our reserves in exchange for royalty payments.

Our revenue and profitability are dependent on our lessees' ability to mine and market our coal reserves. Most of our coal is produced by large companies, many of which are publicly traded, with experienced and professional sales departments. A significant portion of our coal is sold by our lessees under coal supply contracts that have terms of one year or more. However, over the long term, our coal royalty revenues are affected by changes in the market price of coal.

In our coal royalty business, our lessees make payments to us based on the greater of a percentage of the gross sales price or a fixed royalty per ton of coal they sell, subject to minimum monthly, quarterly or annual payments. These minimum royalties are generally recoupable over a specified period of time (usually three to five years) if sufficient royalties are generated from coal production in those future periods. We do not recognize these minimum coal 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.

In addition to coal royalty revenues, we generated approximately 21% of our third quarter revenues from other sources, compared to 11% for the same period in 2006. The increase represents our commitment to continuing to diversify our sources of revenue. These other sources include: aggregate royalties; coal processing and transportation fees; rentals; royalties on oil and gas and coalbed methane leases; timber; overriding royalty arrangements; and wheelage payments.

***Current Results***

As of September 30, 2007, our reserves were subject to 189 leases with 69 lessees. For the quarter ended September 30, 2007, our lessees produced 14.7 million tons of coal generating \$44.4 million in coal royalty revenues from our properties, and our total revenues were \$56.4 million.

Although we have recently acquired a large number of reserves in the Illinois Basin and diversified into aggregates and coal transportation and processing, a significant portion of our total revenue remains dependent upon Appalachian coal production and prices. Coal royalty revenues from our Appalachian properties represented 68% of our total revenues for the quarter and 72% for the nine months ended September 30, 2007. Approximately 28% of our coal royalty revenues and 23% of the related production during the first nine months were from metallurgical coal, which is used in the production of steel. Prices of metallurgical coal have been substantially higher than steam coal over the past few years, and we expect them to remain at high levels for the next several years. The current pricing environment for U.S. metallurgical coal is strong in both the domestic and export markets.

Largely as a result of the strengthening price environment for both metallurgical and steam coal, our third quarter results demonstrated significant improvement over our second quarter performance. In addition to the better prices in all regions, the Cline operations that we acquired in Illinois and West Virginia began to show modest improvement in the third quarter over their performance in the first half of the year. We expect this trend to continue for the remainder of the year as the operations continue to ramp up to their full production potential. Similarly, while the properties we acquired in the Dingess-Rum acquisition have contributed significantly to our 2007 coal royalty revenues, they continued to experience geological and operational issues during the third quarter and to substantially underperform our expectations.





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Although we view coal prices in Appalachia as moving in a positive direction over the remainder of 2007, the political, legal and regulatory environment is becoming increasingly difficult for the coal industry. The recent judicial decision by the Southern District of West Virginia regarding permits issued under Section 404 of the Clean Water Act in West Virginia has created significant regulatory uncertainty for the coal industry. If the ruling is ultimately upheld on appeal, it could have long-term negative implications for the future of surface mining in Appalachia as well as our coal royalty revenues derived from that region.

Global climate change continues to attract considerable public and scientific attention. Widely publicized scientific reports in 2007, such as the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, have also engendered widespread concern about the impacts of human activity, especially fossil fuel combustion, on global climate change. In turn, considerable and increasing government attention in the United States is being paid to global climate change and to reducing greenhouse gas emissions, particularly from coal combustion by power plants. Legislation was introduced in Congress in 2006 and 2007 to reduce greenhouse gas emissions in the United States and additional legislation is likely to be introduced in the future. In addition, a growing number of states in the United States are taking steps to reduce greenhouse gas emissions from coal-fired power plants. The U.S. Supreme Court's recent decision in *Massachusetts v. Environmental Protection Agency* ruled that the EPA improperly declined to address carbon dioxide impacts on climate change in a recent rulemaking. Although the specific rulemaking related to new motor vehicles, the reasoning of the decision could affect other federal regulatory programs, including those that directly relate to coal use. Enactment of laws and passage of regulations regarding greenhouse gas emissions by the United States or some of its states, or other actions to limit carbon dioxide emissions, could result in electric generators switching from coal to other fuel sources.

***Distributable Cash Flow***

Under our partnership agreement, we are required to distribute all of our available cash each quarter. Because distributable cash flow is a significant liquidity metric that is an indicator of our ability to generate cash flows at a level that can sustain or support an increase in quarterly cash distributions paid to our partners, we view it as the most important measure of our success as a company. Distributable cash flow is also the quantitative standard used in the investment community with respect to publicly traded partnerships.

Our distributable cash flow represents cash flow from operations less actual principal payments and cash reserves set aside for scheduled principal payments on our senior notes. Although distributable cash flow is a non-GAAP financial measure, we believe it is a useful adjunct to net cash provided by operating activities under GAAP. Distributable cash flow is not a measure of financial performance under GAAP and should not be considered as an alternative to cash flows from operating, investing or financing activities. Distributable cash flow may not be calculated the same for NRP as for other companies. A reconciliation of distributable cash flow to net cash provided by operating activities is set forth below.

**Reconciliation of GAAP Net cash provided by operating activities  
to Non-GAAP Distributable cash flow**  
(In thousands)

	<b>For the Quarter Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>			
Cash flow from operations	\$ 38,325	\$ 33,384	\$ 114,929	\$ 102,544
Less scheduled principal payments			(9,350)	(9,350)
Less reserves for future principal payments	(4,280)	(2,350)	(9,080)	(7,050)
Add reserves used for scheduled principal payments			9,400	9,400
Distributable cash flow	\$ 34,045	\$ 31,034	\$ 105,899	\$ 95,544

**Acquisitions**

We are a growth-oriented company and have closed a number of acquisitions over the last several years. Our most recent acquisitions are briefly described below.

*Cheyenne Resources.* On August 20, 2007, we acquired a rail load-out facility and rail spur from Cheyenne Resources for \$5.5 million. This facility is located in Perry County, Kentucky.

*Mid-Vol Coal Preparation Plant.* On May 21, 2007, we signed an agreement for the construction of a coal preparation plant, coal handling infrastructure and a rail load-out facility under our memorandum of understanding with Taggart Global USA, LLC. Consideration for the facility, located near Eckman, WV, is estimated to be approximately \$16.2 million, of which \$10.3 million has been paid for construction costs incurred to date.

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*Mettiki.* On April 3, 2007, we acquired approximately 35 million tons of coal reserves in Grant and Tucker Counties in Northern West Virginia for total consideration of 500,000 NRP common units and approximately \$10.2 million in cash. The assets were acquired from Western Pocahontas Properties under our omnibus agreement. Western Pocahontas Properties has retained an overriding royalty interest on approximately 16 million tons of non-permitted reserves, which will be offered to NRP at the time those reserves are permitted.

*Westmoreland.* On February 27, 2007, we acquired an overriding royalty on 225 million tons of coal in the Powder River Basin from Westmoreland Coal Company for \$12.7 million. The reserves are located in the Rocky Butte Reserve in Wyoming.

*Dingess-Rum.* On January 16, 2007, we acquired 92 million tons of coal reserves and approximately 33,700 acres of surface and timber in Logan, Clay and Nicholas Counties in West Virginia from Dingess-Rum Properties, Inc. As consideration for the acquisition, we issued 4,800,000 common units to Dingess-Rum.

*Cline.* On January 4, 2007, we acquired 49 million tons of reserves in Williamson County, Illinois and Mason County, West Virginia that are leased to affiliates of The Cline Group. In addition, we acquired transportation assets and related infrastructure at those mines. As consideration for the transaction we issued 7,826,160 common units and 1,083,912 Class B units representing limited partner interests in NRP. The Class B units were converted to common units in the second quarter. Through its affiliate Adena Minerals, LLC, The Cline Group received a 22% interest in our general partner and in the incentive distribution rights of NRP in return for providing NRP with the exclusive right to acquire additional reserves, royalty interests and certain transportation infrastructure relating to future mine developments by The Cline Group. Simultaneous with the closing of this transaction, we signed a definitive agreement to purchase the coal reserves and transportation infrastructure at Cline's Gatling Ohio complex. This transaction will close upon commencement of coal production, which is currently expected to occur in 2008. At the time of closing, NRP will issue Adena 4,560,000 additional units, and the general partner of NRP will issue Adena an additional 9% interest in the general partner and the incentive distribution rights.

**New Accounting Standard**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We have not yet determined the impact on our financial statements of adopting SFAS No. 159 effective January 1, 2008.

**Table of Contents****Results of Operations**

	<b>Three Months Ended</b>		<b>Increase</b>	<b>Percentage</b>
	<b>September 30,</b>	<b>2006</b>	<b>(Decrease)</b>	<b>Change</b>
	<b>2007</b>			
	<b>(In thousands, except percent and per ton data)</b>			
	<b>(Unaudited)</b>			
<i>Coal royalties</i>				
<i>Appalachia</i>				
Northern	\$ 3,941	\$ 2,292	\$ 1,649	72%
Central	29,662	24,568	5,094	21%
Southern	4,649	5,471	(822)	(15%)
Total Appalachia	38,252	32,331	5,921	18%
Illinois Basin	2,462	808	1,654	205%
Northern Powder River Basin	3,664	3,763	(99)	(3%)
Total	\$ 44,378	\$ 36,902	\$ 7,476	20%
<i>Production (tons)</i>				
<i>Appalachia</i>				
Northern	1,640	1,177	463	39%
Central	8,927	7,873	1,054	13%
Southern	1,184	1,395	(211)	(15%)
Total Appalachia	11,751	10,445	1,306	13%
Illinois Basin	1,147	368	779	212%
Northern Powder River Basin	1,810	1,985	(175)	(9%)
Total	14,708	12,798	1,910	15%
<i>Average gross royalty per ton</i>				
<i>Appalachia</i>				
Northern	\$ 2.40	\$ 1.95	\$ 0.46	23%
Central	3.32	3.12	0.20	6%
Southern	3.93	3.92	0.01	<1%
Total Appalachia	3.26	3.10	0.16	5%
Illinois Basin	2.15	2.20	(0.05)	(2%)
Northern Powder River Basin	2.02	1.90	0.13	7%
Combined average gross royalty per ton	3.02	2.88	0.13	5%
<i>Aggregates:</i>				
Revenue	\$ 2,096		\$ 2,096	100%
Production	1,583		1,583	100%
Average gross royalty	\$ 1.32		\$ 1.32	100%

*Coal Royalty Revenues and Production.* Coal royalty revenues comprised approximately 79% and 89% of our total revenue for each of the three month periods ended September 30, 2007 and 2006. The following is a discussion of the coal royalty revenues and production derived from our major coal producing regions:

*Appalachia.* As a result of acquisitions completed since the end of the third quarter of 2006 and slightly higher prices, both coal royalty revenues and production in Appalachia increased compared to same period in 2006. The

Appalachian results by region are set forth below.

Northern Appalachia. Coal royalty revenues and production increased primarily due to acquisitions completed since the end of the third quarter of 2006. Coal royalty revenues attributable to those acquisitions were \$2.4 million and production was 0.9 million tons. These increases were partially offset by lower production at our Kingwood and AFC properties, where a greater proportion of the production for the quarter ended September 30, 2007 was on adjacent property compared to the quarter ended September 30, 2006.

Central Appalachia. Coal royalty revenues attributable to acquisitions completed since the end of the third quarter of 2006 were \$9.3 million and production was 2.5 million tons. Coal royalty revenues and production also increased on our Lynch and Y&O properties as new mining operations began to come on line. Offsetting these increases, our VICC/Kentucky Land, Pinnacle, Dorothy, Evans Lavier, Plum Creek and Campbells Creek properties all had some mining activity move to adjacent properties.

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Excluding the properties acquired since the end of the third quarter of 2006, we experienced a \$4.7 million reduction in coal royalty revenues from our Central Appalachian properties for the current quarter compared to the same period in 2006.

*Southern Appalachia.* Our coal royalty revenues and production in Southern Appalachia decreased for the quarter ended September 30, 2007 compared to the quarter ended September 30, 2006 because our major lessees on our BLC Properties and Twin Pines/Drummond properties had more production coming from adjacent property.

*Illinois Basin.* Coal royalty revenues and production attributable to our Williamson and James River acquisitions were \$0.7 million and production was 0.3 million tons for the current quarter. In addition, production and coal royalty revenues on our Hocking Wolford/Cummings property increased because the lessee mined a greater proportion of their production on our property.

*Northern Powder River Basin.* The decrease in production on our Western Energy property was due to the normal variations that occur due to the checkerboard nature of our ownership, but was partially offset by higher prices being received by our lessee.

*Aggregates Royalty Revenues, Reserves and Production.* In December 2006, we acquired aggregate reserves located in DuPont, Washington. For the quarter ended September 30, 2007, we recorded \$2.1 million in royalty revenues from aggregates and had production of 1.6 million tons.

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	<b>Nine Months Ended September 30, 2007                  2006</b>		<b>Increase (Decrease)</b>	<b>Percentage Change</b>
	<b>(In thousands, except percent and per ton data) (Unaudited)</b>			
<i>Coal royalties</i>				
<i>Appalachia</i>				
Northern	\$ 11,064	\$ 8,330	\$ 2,734	33%
Central	88,248	74,953	13,295	18%
Southern	13,677	16,088	(2,411)	(15%)
Total Appalachia	112,989	99,371	13,618	14%
Illinois Basin	4,941	4,465	476	11%
Northern Powder River Basin	8,154	8,703	(549)	(6%)
Total	\$ 126,084	\$ 112,539	\$ 13,545	12%
<i>Production (tons)</i>				
<i>Appalachia</i>				
Northern	4,875	4,391	484	11%
Central	27,022	24,050	2,972	12%
Southern	3,514	4,256	(742)	(17%)
Total Appalachia	35,411	32,697	2,714	8%
Illinois Basin	2,307	2,507	(200)	(8%)
Northern Powder River Basin	4,072	4,983	(911)	(18%)
Total	41,790	40,187	1,603	4%
<i>Average gross royalty per ton</i>				
<i>Appalachia</i>				
Northern	\$ 2.27	\$ 1.90	\$ 0.37	20%
Central	3.27	3.12	0.15	5%
Southern	3.89	3.78	0.11	3%
Total Appalachia	3.19	3.04	0.15	5%
Illinois Basin	2.14	1.78	0.36	20%
Northern Powder River Basin	2.00	1.75	0.26	15%
Combined average gross royalty per ton	3.02	2.80	0.22	8%
<i>Aggregates:</i>				
Revenues	\$ 5,785		\$ 5,785	100%
Production	4,455		4,455	100%
Average gross royalty	\$ 1.30		\$ 1.30	100%

*Coal Royalty Revenues and Production.* Coal royalty revenues comprised approximately 80% and 87% of our total revenue for each of the nine month periods ended September 30, 2007 and 2006. The following is a discussion of the coal royalty revenues and production derived from our major coal producing regions:

*Appalachia.* As a result of acquisitions completed since the end of the third quarter of 2006 and slightly higher prices, coal royalty revenues and production in Appalachia increased compared to the same period in 2006. The Appalachian results by region are set forth below.



Northern Appalachia. Coal royalty revenues and production increased, primarily due to acquisitions completed since the end of the third quarter of 2006. Coal royalty revenues attributable to those acquisitions were \$4.9 million and production was 1.9 million tons. These increases were partially offset by lower production at our Sincell property, where longwall mining was completed, and our AFC and Kingwood properties, where a greater proportion of the production for the nine months ended September 30, 2007 was on adjacent property compared to the nine months ended September 30, 2006.

Central Appalachia. Coal royalty revenues and production increased primarily as a result of acquisitions. Coal royalty revenues attributable to acquisitions completed since the end of the third quarter of 2006 were \$26.6 million and production was 7.3 million tons. Coal royalty revenues and production also increased on our Y&O properties as a new mining operation began to come on line. Offsetting these increases in production and coal royalty revenues, our Pinnacle, VICC/Kentucky Land, Dorothy,

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Evans Lavier and Eunice properties all experienced decreases in both categories. Excluding the properties acquired since the third quarter of 2006, we experienced reduced coal royalty revenues of approximately \$10.8 million from our Central Appalachian properties for the current year compared to the same period in 2006.

*Southern Appalachia.* Our coal royalty revenues and production in Southern Appalachia decreased because our major lessees on our Twin Pines/Drummond and BLC Properties had more production coming from adjacent property.

*Illinois Basin.* Coal royalty revenues in the Illinois Basin increased in the first nine months of 2007 as compared to the first nine months of 2006 but production was slightly lower. Coal royalty revenues attributable to our Williamson and James River acquisitions were \$1.6 million and production was 0.7 million tons for the first nine months of 2007. This increase was offset primarily by reduced production and coal royalty revenues on our Hocking Wolford/Cummings property as the lessee mined a greater proportion of their production adjacent property.

*Northern Powder River Basin.* Coal royalty revenues and production from our Western Energy property decreased due to the normal variations that occur due to the checkerboard nature of our ownership, but was partially offset by higher prices being received by our lessee.

*Aggregates Royalty Revenues, Reserves and Production.* In December 2006, we acquired aggregate reserves located in DuPont, Washington. For the nine months ended September 30, 2007, we recorded \$5.8 million in royalty revenues from aggregates and had production of 4.5 million tons.

**Other Operating Results**

*Coal Transportation and Processing Revenues.* In the second half of 2006 we acquired two preparation plants and coal handling facilities under our memorandum of understanding with Taggart Global. We acquired a third plant under this memorandum in May 2007. These facilities, combined with a fourth coal preparation plant and rail load-out facility that we acquired in Greenbrier County, West Virginia in 2005, generated approximately \$1.4 million and \$3.4 million in coal processing fees for the quarter and nine month periods ending September 30, 2007. We do not operate the preparation plants, but receive a fee for coal processed through them. Similar to our coal royalty structure, the throughput fees are based on a percentage of the ultimate sales price for the coal that is processed through the facilities.

In addition to our preparation plants, as part of the January 2007 Cline transaction, we acquired coal handling and transportation infrastructure associated with the Gatling mining complex in West Virginia and beltlines and rail load-out facilities associated with Williamson Energy's Pond Creek No. 1 mine in Illinois. In contrast to our typical royalty structure, we are operating the coal handling and transportation infrastructure and have subcontracted out that responsibility to third parties. We anticipate that these assets will contribute significant revenues to us in future years. We generated approximately \$1.0 million and \$2.3 million in transportation fees from these assets in the quarter and first nine months of 2007.

*Other revenues.* Included in other revenues for the nine months ended September 30, 2006 is the sale of timber and related surface acreage located on our property in Wise and Dickenson Counties, Virginia. We received proceeds from the sale of \$4.8 million, resulting in a gain of \$2.6 million.

*Operating costs and expenses.* Included in total expenses are:

Depreciation, depletion and amortization was \$13.0 million for the third quarter of 2007 and \$37.3 million for the nine months ended September 30, 2007, an increase over last year of \$6.0 million and \$15.2 million for quarter and year to date, respectively. These increases are due to acquisitions made during the fourth quarter of 2006 and during 2007, which have a higher depletion rate per ton than our older properties.

General and administrative expenses were \$3.7 million for the third quarter of 2007 and \$15.9 million for the first nine months of 2007, compared to \$3.5 million and \$11.0 million for the third quarter and first nine months of 2006. The year to year comparison reflects an increase of \$4.9 million, or 45%, due to increases in personnel, salaries, and incentive compensation accruals; increased costs associated with reporting partners' tax information; and increases in the allowance for doubtful accounts.

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Property, franchise and other taxes were \$4.0 million for the quarter and \$10.6 million for the nine months ended September 30, 2007, compared to \$2.1 million and \$6.5 million for the third quarter and first nine months of 2006, an increase of \$1.9 million for the quarter and \$4.1 million for the nine month period ending September 30, 2006. This increase in expense for property

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taxes during 2007 is as a result of significant acquisitions made since the third quarter of 2006.

*Interest Expense.* The increase in interest expense is attributed to borrowings on our credit facility and the issuance of senior notes used to fund acquisitions in 2006 and 2007.

**Liquidity and Capital Resources*****Cash Flows and Capital Expenditures***

We satisfy our working capital requirements with cash generated from operations. We fund our property acquisitions through borrowings under our revolving credit facility, the issuance of our senior notes and the issuance of additional common units and cash. We believe that cash generated from our operations, combined with the availability under our credit facility and the proceeds from the issuance of debt and equity, will be sufficient to fund working capital, capital expenditures and future acquisitions. Our ability to satisfy debt service obligations, fund planned capital expenditures, make acquisitions and pay distributions to our unitholders will depend upon our ability to access the capital markets, as well as our future operating performance, which will be affected by prevailing economic conditions in the coal industry and financial, business and other factors, some of which are beyond our control. For a more complete discussion of factors that will affect the amount of cash we generate from our operations, please read *Item 1A Risk Factors* in this Form 10-Q and our Form 10-K for the year ended December 31, 2006. Our capital expenditures, other than for acquisitions, have historically been minimal.

Net cash provided by operations for the nine months ended September 30, 2007 and 2006 was \$114.9 million and \$102.5 million, respectively. A significant portion of our cash provided by operations is generated from coal royalty revenues. In addition, we received approximately \$10.8 million in advance royalty payments that have not been recouped in 2007, compared to \$1.0 million in advance royalty payments that had not been recouped for the nine months ended September 30, 2006. The large discrepancy is primarily due to substantial advance royalty payments received in 2007 from Cline affiliates that have not been recouped.

Net cash used in investing activities for the nine months ended September 30, 2007 was \$46.3 million compared to \$101.1 million for the same period in 2006. Results for the nine months ending September 30, 2007 include the use of \$40.1 million for acquisitions and the placement of \$6.2 million in an interest bearing restricted cash account to terminate a tenancy in common agreement in connection with the Cline acquisition. The 2006 results include the funding of the second and third phase of the Williamson Development acquisition for \$70 million and another \$35 million to fund other acquisitions partially offset by the proceeds from the sale of our Virginia timber assets and related surface tracts for \$4.8 million.

Net cash used in financing activities for the nine months ended September 30, 2007 was \$80.3 million compared to \$11.6 million provided by financing for the same period a year ago. In the nine months of 2007 we borrowed \$37.4 million on our revolving credit facility to fund acquisitions and we issued \$225 million in senior notes and used the proceeds to pay down \$226.0 million on the credit facility. As a part of the Dingess-Rum and Mettiki acquisitions we received \$2.6 million in cash contributions from our general partner to maintain its 2% interest. In the nine months ended September 30, 2006, we issued \$50.0 million of senior notes to fund the second phase of the Williamson Development acquisition for \$35 million and to repay \$15.0 million on our credit facility. In addition, we borrowed \$53 million on our credit facility to fund the third phase of the Williamson acquisition and other acquisitions made during 2006. We also made a \$9.3 million in principal payments on our senior notes. Distributions to our partners were \$108.1 million and \$67.0 million for the nine months ended September 30, 2007 and 2006, respectively.

***Long-Term Debt***

At September 30, 2007, our debt consisted of:

\$25.0 million of our \$300 million floating rate revolving credit facility, due March 2012;

\$35 million of 5.55% senior notes due 2013;

\$55.8 million of 4.91% senior notes due 2018;

\$100 million of 5.05% senior notes due 2020;

\$2.7 million of 5.31% utility local improvement obligation due 2021;

\$46.8 million of 5.55% senior notes due 2023; and

\$225 million of 5.82% senior notes due 2024.

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Other than the 5.55% senior notes due 2013, which have only semi-annual interest payments, all of our senior notes require annual principal payments in addition to semi-annual interest payments. The scheduled principal payments on the 5.05% senior notes due 2020 do not begin until July 2008, and the principal payments on the 5.82% senior notes due 2024 do not begin until March 2010. We also make annual principal and interest payments on the utility local improvement obligation.

*Credit Facility.* In March 2007, we completed an amendment and extension of our \$300 million revolving credit facility. The amendment extends the term of the credit facility by two years to 2012 and lowers the borrowing costs and commitment fees. The amendment also includes an option to increase the credit facility up to a maximum of \$450 million under the same terms.

Our obligations under the credit facility are unsecured but are guaranteed by our operating subsidiaries. We may prepay all loans at any time without penalty. Indebtedness under the revolving credit facility bears interest, at our option, at either:

the higher of the federal funds rate plus an applicable margin ranging from 0% to 0.50% or the prime rate as announced by the agent bank; or

at a rate equal to LIBOR plus an applicable margin ranging from 0.45% to 1.50%.

We incur a commitment fee on the unused portion of the revolving credit facility at a rate ranging from 0.10% to 0.30% per annum.

The credit agreement contains covenants requiring us to maintain:

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

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

*Senior Notes.* NRP Operating LLC issued the senior notes under a note purchase agreement. The senior notes are unsecured but are guaranteed by our operating subsidiaries. We may prepay the senior notes at any time together with a make-whole amount (as defined in the note purchase agreement). If any event of default exists under the note purchase agreement, the noteholders will be able to accelerate the maturity of the senior notes and exercise other rights and remedies.

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

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

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

### ***Two-for-One Limited Partner Unit Split***

On April 18, 2007, we completed a two-for-one split of all of our limited partner units. Accordingly, all unit and per unit amounts reported reflect the split.

### ***Conversion of Class B Units***

On January 4, 2007, we issued 541,956 Class B units to Adena Minerals in connection with the Cline acquisition. The Class B units were subsequently split, along with our common and subordinated units, on a two-for-one basis into 1,083,912 Class B units. We issued the Class B units to Adena instead of additional common units because Section 312.03(b) of the New York Stock Exchange Listed Company Manual prohibited the issuance of any further common units to Adena without unitholder approval. Pursuant to the terms of our partnership agreement, the Class B units convert into common units on a one-for-one basis upon the earlier to occur of (i) the approval of such conversion by our unitholders or (ii) the rules of the NYSE being changed so that no vote or consent of unitholders is required as a condition to the listing or admission to trading of the common units that would be issued upon any conversion of any

Class B units into common units.

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On May 22, 2007, the Securities and Exchange Commission approved an amendment to Section 312.03(b) of the NYSE Listed Company Manual which, among other things, exempted limited partnerships from the provisions of Section 312.03(b). As a result of the amendment, a vote of our unitholders is no longer required to issue common units to Adena. Consequently, all 1,083,912 Class B units held by Adena converted to 1,083,912 common units effective May 22, 2007. After the conversion, no Class B units are outstanding.

***Shelf Registration Statement***

We have approximately \$290.2 million available under our shelf registration statement. The securities may be offered from time to time directly or through underwriters at amounts, prices, interest rates and other terms to be determined at the time of any offering. The net proceeds from the sale of securities from the shelf will be used for future acquisitions and other general corporate purposes, including the retirement of existing debt.

***Off-Balance Sheet Transactions***

We do not have any off-balance sheet arrangements with unconsolidated entities or related parties and accordingly, there are no off-balance sheet risks to our liquidity and capital resources from unconsolidated entities.

**Related Party Transactions*****Reimbursements to Affiliates of our General Partner***

Our general partner does not receive any management fee or other compensation for its management of Natural Resource Partners L.P. However, in accordance with our partnership agreement, our general partner and its affiliates are reimbursed for expenses incurred on our behalf. All direct general and administrative expenses are charged to us as incurred. We also reimburse 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. Reimbursements to affiliates of our general partner may be substantial and will reduce our cash available for distribution to unitholders.

The reimbursements to affiliates of our general partner for services performed by Western Pocahontas Properties and Quintana Minerals Corporation totaled \$1.2 million and \$1.0 million for the three month periods ended September 30, 2007 and 2006, respectively and \$3.8 million and \$3.0 million for the nine month periods ended September 30, 2007 and 2006, respectively.

***Transactions with Cline Affiliates***

Williamson Energy, LLC, a company controlled by Chris Cline, leases coal reserves from us, and we provide transportation services to Williamson for a fee. Mr. Cline, through another affiliate, Adena Minerals, LLC, owns a 22% interest in our general partner and the incentive distribution rights of NRP, as well as 8,910,072 common units. At September 30, 2007, we had accounts receivable totaling \$0.2 million from Williamson. For the three and nine month periods ended September 30, 2007, we had total revenue of \$1.0 million and \$2.2 million from Williamson. In addition, we received advance minimum royalties of \$4.0 million that have not been recouped.

Gatling, LLC, a company also controlled by Chris Cline, leases coal reserves from us and we provide transportation services to Gatling for a fee. At September 30, 2007, we had accounts receivable totaling \$0.3 million from Gatling. For the three and nine month periods ended September 30, 2007, we had total revenue of \$0.8 million and \$1.9 million from Gatling, LLC. In addition, we received advance minimum royalty payments of \$4.2 million that have not been recouped.

***Quintana Energy Partners, L.P.***

In 2006, Corbin J. Robertson, Jr. formed Quintana Energy Partners, L.P., or QEP, a private equity fund focused on investments in the energy business. In connection with the formation of QEP, our general partner's board of directors adopted a conflicts policy that establishes the opportunities that will be pursued by NRP and those that will be pursued by QEP. For a more detailed description of this policy, please see Item 13. Certain Relationships and Related Transactions, and Director Independence in our Form 10-K.

In February 2007, QEP acquired a significant membership interest in Taggart Global USA, LLC, including the right to nominate



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two members of Taggart's 5-person board of directors. NRP currently has a memorandum of understanding with Taggart Global pursuant to which the two companies have agreed to jointly pursue the development of coal handling and preparation plants. NRP will own and lease the plants to Taggart Global, which will design, build and operate the plants. The lease payments are based on the sales price for the coal that is processed through the facilities. To date, NRP has acquired three facilities under this agreement with Taggart, and for the three and nine month periods ended September 30, 2007, we received total revenue of 0.8 million and \$1.9 million, respectively, from Taggart. At September 30, 2007, we had accounts receivable totaling \$0.4 million from Taggart.

In July 2007, QEP acquired a controlling interest in Kopper-Glo Fuel, Inc., a coal operating company that is one of our lessees. For the three and nine month periods ended September 30, 2007, we had total revenue of \$0.4 million and \$1.4 million from Kopper-Glo, and at September 30, 2007, we had accounts receivable totaling \$0.1 million.

### **Environmental**

The operations our lessees conduct on our properties are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. As an owner of surface interests in some properties, we may be liable for certain environmental conditions occurring at the surface properties. The terms of substantially all of our 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 us against, among other things, environmental liabilities. Some of these indemnifications survive the termination of the lease. Because we have no employees, employees of Western Pocahontas Properties Limited Partnership make regular visits to the mines to ensure compliance with lease terms, but the duty to comply with all regulations rests with the lessees. We believe that our lessees will be able to comply with existing regulations and do not expect any lessee's failure to comply with environmental laws and regulations to have a material impact on our financial condition or results of operations. We have neither incurred, nor are aware of, any material environmental charges imposed on us related to our properties as of September 30, 2007. We are not associated with any environmental contamination that may require remediation costs. However, our lessees regularly conduct reclamation work on the properties under lease to them. Because we are not the permittee of the operations on our properties, we are not responsible for the costs associated with these operations. In addition, West Virginia has established a fund to satisfy any shortfall in our lessees' reclamation obligations.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk, which includes adverse changes in commodity prices and interest rates as discussed below:

#### **Commodity Price Risk**

We are dependent upon the effective marketing and efficient mining of our coal reserves by our lessees. Our lessees sell coal under various long-term and short-term contracts as well as on the spot market. A large portion of these sales are under long-term contracts. The coal industry in Appalachia is experiencing an increase in both domestic and foreign demand, as well as a shortage of supply. As a result, the current price of coal in Appalachia is at historically high levels. If this price level is not sustained or our lessees' costs increase, some of our coal could become uneconomical to mine, which would adversely affect our coal royalty revenues. In addition, the current prices may make coal from other regions more economical and may make other competing fuels relatively less costly than Appalachian coal.

#### **Interest Rate Risk**

Our exposure to changes in interest rates results from our borrowings under our revolving credit facility, which may be subject to variable interest rates based upon LIBOR. At September 30, 2007, we had \$25.0 million outstanding in variable interest rate debt.

### **Item 4. Controls and Procedures**

NRP carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act) as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of NRP management, including the Chief Executive Officer and Chief Financial Officer of the general partner of the general

partner of NRP. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective in providing reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed,

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summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (b) such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

No changes were made to our internal control over financial reporting during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

During the period covered by this report, there were no material changes from the risk factors previously disclosed in Natural Resource Partners L.P.'s Form 10-K for the year ended December 31, 2006.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

- 31.1\* Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley.
- 31.2\* Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley.
- 32.1\*\* Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.
- 32.2\*\* Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.

\* Filed herewith.

\*\* Furnished  
herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned and thereunto duly authorized.

NATURAL RESOURCE PARTNERS  
L.P.

By: NRP (GP) LP, its general partner

By: GP NATURAL RESOURCE  
PARTNERS LLC, its general  
partner

Date: November 2, 2007

By: /s/ Corbin J. Robertson, Jr.

Corbin J. Robertson, Jr.,  
Chairman of the Board and Chief  
Executive Officer (Principal  
Executive Officer)

Date: November 2, 2007

By: /s/ Dwight L. Dunlap

Dwight L. Dunlap,  
Chief Financial Officer and  
Treasurer (Principal Financial  
Officer)

Date: November 2, 2007

By: /s/ Kenneth Hudson

Kenneth Hudson  
Controller  
(Principal Accounting Officer)

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Exhibit Index

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