

NATURAL RESOURCE PARTNERS LP

Form 10-Q

May 06, 2010

Table of Contents

**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 March 31, 2010

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer 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 May 6, 2010 there were 74,027,836 Common Units outstanding.

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009</u>	4
<u>Consolidated Statements of Income For the Three Months Ended March 31, 2010 and 2009</u>	5
<u>Consolidated Statements of Cash Flows For the Three Months Ended March 31, 2010 and 2009</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Executive Overview</u>	16
<u>Results of Operations</u>	20
<u>Liquidity and Capital Resources</u>	21
<u>Related Party Transactions</u>	23
<u>Environmental</u>	24
<u>ITEM 3. Quantitative And Qualitative Disclosures About Market Risk</u>	24
<u>ITEM 4. Controls And Procedures</u>	25
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	26
<u>ITEM 1A. Risk Factors</u>	26
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<u>ITEM 3. Defaults Upon Senior Securities</u>	26
<u>ITEM 4. (Removed and Reserved)</u>	26
<u>ITEM 5. Other Information</u>	26
<u>ITEM 6. Exhibits</u>	27
<u>Signatures</u>	28
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

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/A for the year ended December 31, 2009 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)

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 62,856	\$ 82,634
Accounts receivable, net of allowance for doubtful accounts	28,268	27,141
Accounts receivable affiliate	5,334	4,342
Other	771	930
Total current assets	97,229	115,047
Land	24,343	24,343
Plant and equipment, net	62,274	64,351
Coal and other mineral rights, net	1,193,908	1,151,835
Intangible assets, net	163,794	164,554
Loan financing costs, net	2,777	2,891
Other assets, net	508	569
Total assets	\$ 1,544,833	\$ 1,523,590
 LIABILITIES AND PARTNERS CAPITAL		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 681	\$ 914
Accounts payable affiliates	179	179
Obligation related to acquisition	4,477	2,969
Current portion of long-term debt	32,235	32,235
Accrued incentive plan expenses current portion	3,851	4,627
Property, franchise and other taxes payable	5,112	6,164
Accrued interest	3,164	10,300
Total current liabilities	49,699	57,388
Deferred revenue	80,031	67,018
Accrued incentive plan expenses	5,626	7,371
Long-term debt	657,395	626,587
Partners capital:		
Common units outstanding: (69,451,136)	726,797	747,437
General partner's interest	12,886	13,409
Holder of incentive distribution rights	12,983	4,977
Accumulated other comprehensive loss	(584)	(597)

Total partners' capital	752,082	765,226
Total liabilities and partners' capital	\$ 1,544,833	\$ 1,523,590

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

4

Table of Contents

NATURAL RESOURCE PARTNERS L.P.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per unit data)

	Three Months Ended	
	March 31,	
	2010	2009
	(Unaudited)	
Revenues:		
Coal royalties	\$ 47,161	\$ 52,607
Aggregate royalties	891	1,650
Coal processing fees	1,644	1,900
Transportation fees	2,775	2,096
Oil and gas royalties	1,099	1,493
Property taxes	2,651	3,211
Minimums recognized as revenue	3,374	223
Override royalties	2,967	2,548
Other	957	1,005
Total revenues	63,519	66,733
Operating costs and expenses:		
Depreciation, depletion and amortization	11,368	13,078
General and administrative	6,548	7,506
Property, franchise and other taxes	3,734	3,975
Transportation costs	265	268
Coal royalty and override payments	692	489
Total operating costs and expenses	22,607	25,316
Income from operations	40,912	41,417
Other income (expense):		
Interest expense	(10,729)	(8,079)
Interest income	8	82
Net income	\$ 30,191	\$ 33,420
Net income attributable to:		
General partner	\$ 344	\$ 441
Holders of incentive distribution rights	\$ 12,983	\$ 11,381
Limited partners	\$ 16,864	\$ 21,598
Basic and diluted net income per limited partner unit	\$ 0.24	\$ 0.33
Weighted average number of units outstanding	69,451	64,891

Table of Contents

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

	Three Months Ended	
	March 31,	
	2010	2009
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 30,191	\$ 33,420
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	11,368	13,078
Non-cash interest charge, net	150	882
Change in operating assets and liabilities:		
Accounts receivable	(2,119)	(3,463)
Other assets	220	267
Accounts payable and accrued liabilities	(233)	(395)
Accrued interest	(7,136)	(3,145)
Deferred revenue	13,013	5,512
Accrued incentive plan expenses	(2,521)	(466)
Property, franchise and other taxes payable	(1,052)	(2,138)
Net cash provided by operating activities	41,881	43,552
Cash flows from investing activities:		
Acquisition of land, coal and other mineral rights	(46,150)	(95,641)
Acquisition or construction of plant and equipment		(1,157)
Net cash used in investing activities	(46,150)	(96,798)
Cash flows from financing activities:		
Proceeds from loans	46,000	303,000
Deferred financing costs		(661)
Repayment of loans	(15,192)	(151,192)
Retirement of obligation related to acquisitions	(2,969)	(40,000)
Distributions to partners	(43,348)	(46,720)
Net cash (used in) provided by financing activities	(15,509)	64,427
Net increase (decrease) in cash and cash equivalents	(19,778)	11,181
Cash and cash equivalents at beginning of period	82,634	89,928
Cash and cash equivalents at end of period	\$ 62,856	\$ 101,109
Supplemental cash flow information:		
Cash paid during the period for interest	\$ 17,700	\$ 10,280
Non-cash financing activities:		

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Obligation related to purchase of coal reserves and infrastructure	\$ 4,477	\$ 59,220
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The accompanying notes are an integral part of these financial statements.

6

Table of Contents

**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 months ended March 31, 2010 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 2009 Annual Report on Form 10-K/A 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. Significant Accounting Policies Update

Reclassification

Certain reclassifications have been made to the prior year's financial statements. Immaterial amounts relating to the AzConAgg and Gatling Ohio acquisitions have been reclassified between various assets based upon more information.

Recent Accounting Pronouncements

In January 2010, the FASB amended fair value disclosure requirements. This amendment requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. See Note 9. "Fair Value Measurements" for the definition of Level 1 and Level 2 measurements. The amendment also requires a reporting entity to present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs. This amendment is effective for fiscal years beginning after December 15, 2009 and interim periods within those fiscal years. The Partnership applied the effective provisions of this standard update in preparing its disclosures, and the adoption of the standard did not have a material effect on such disclosures.

In June 2009, the FASB issued a new standard amending previous consolidation of variable interest entities guidance. This amended guidance requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it controlling financial interest in a variable interest entity. This amendment is effective for fiscal years beginning after November 15, 2009 and interim periods within those fiscal years. The Partnership does not expect this adoption to have a material impact on the financial statements.

In February 2010, the FASB amended the subsequent events standard, removing the requirement for an SEC filer to disclose a date in issued and revised financial statements. The FASB added that revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The Partnership adopted this amendment for the quarter ended March 31, 2010. The adoption did not have a material impact on the Partnership's disclosures.

Table of Contents

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. Recent Acquisitions

Northgate-Thayer. In March 2010, the Partnership acquired approximately 100 acres of mineral and surface rights related to dolomite reserves in White County, Indiana from a local operator for a purchase price of \$7.5 million. As of March 31, 2010 the Partnership had funded \$3.0 million of the acquisition, and the remaining payments are expected to be paid over the next three months upon completion of certain development milestones.

Massey-Override. In March 2010, the Partnership acquired from Massey Energy subsidiaries overriding royalty interests in coal reserves located in southern West Virginia and eastern Kentucky. Total consideration for this purchase was \$3.0 million.

AzConAgg. In December 2009, the Partnership acquired approximately 230 acres of mineral and surface rights related to sand and gravel reserves in southern Arizona from a local operator for \$3.75 million.

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. In January 2010, the Partnership closed the second transaction for \$40.0 million and acquired approximately 19.5 million tons of reserves. As of March 31, 2010, the Partnership had acquired approximately 22.8 million tons of reserves associated with the initial production from the mine for approximately \$50 million. 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.

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 51.5 million tons of 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.

Macoupin. In January 2009, the Partnership acquired approximately 82 million tons of 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.

Table of Contents**4. Plant and Equipment**

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

	March 31, 2010	December 31, 2009
	(In thousands) (Unaudited)	
Plant and equipment at cost	\$ 81,866	\$ 81,866
Accumulated depreciation	(19,592)	(17,515)
 Net book value	 \$ 62,274	 \$ 64,351
		 Three months ended March 31, 2010 2009
		(In thousands) (Unaudited)
Total depreciation expense on plant and equipment		\$ 2,077 \$ 1,887

5. Coal and Other Mineral Rights

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

	March 31, 2010	December 31, 2009
	(In thousands) (Unaudited)	
Coal and other mineral rights	\$ 1,511,587	\$ 1,460,984
Less accumulated depletion and amortization	(317,679)	(309,149)
 Net book value	 \$ 1,193,908	 \$ 1,151,835
		 Three months ended March 31, 2010 2009
		(In thousands) (Unaudited)
Total depletion and amortization expense on coal and other mineral rights		\$ 8,530 \$ 10,600

Table of Contents**6. Intangible Assets**

In 2009, the Partnership identified \$65.1 million of above market contracts relating to the AzConAgg, Gatling Ohio and Macoupin acquisitions. Amounts recorded as intangible assets along with the balances and accumulated amortization at March 31, 2010 and December 31, 2009 are reflected in the table below:

	March 31, 2010	December 31, 2009
	(In thousands) (Unaudited)	
Above market contracts	\$ 172,706	\$ 172,706
Less accumulated amortization	(8,912)	(8,152)
Net book value	\$ 163,794	\$ 164,554

	For the three months ended March 31,	
	2010	2009
	(In thousands) (Unaudited)	
Total amortization expense on intangible assets	\$ 760	\$ 591

Amortization expense 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, 2010	\$ 3,904
For year ended December 31, 2011	5,330
For year ended December 31, 2012	5,098
For year ended December 31, 2013	5,098
For year ended December 31, 2014	5,098

Table of Contents**7. Long-Term Debt**

Long-term debt consists of the following:

	March 31, 2010	December 31, 2009
	(In thousands)	
	(Unaudited)	
\$300 million floating rate revolving credit facility, due March 2012	\$ 74,000	\$ 28,000
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	43,700
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	150,000
5.05% senior notes, with semi-annual interest payments in January and July, with annual principal payments in July, maturing in July 2020	84,615	84,615
5.31% utility local improvement obligation, with annual principal and interest payments, maturing in March 2021	2,115	2,307
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	40,200
5.82% senior notes, with semi-annual interest payments in March and September, with scheduled principal payments beginning March 2010, maturing in March 2024	210,000	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	50,000
Total debt	689,630	658,822
Less current portion of long term debt	(32,235)	(32,235)
Long-term debt	\$ 657,395	\$ 626,587
Principal payments due in:		
2010		\$ 17,042
2011		31,518
2012		104,801
2013		87,230
2014		56,175
Thereafter		392,864
		\$ 689,630

The senior note purchase agreement contains covenants requiring our operating subsidiary to:
 Maintain a ratio of consolidated indebtedness to consolidated EBITDA (as defined in the note purchase agreement) of no more than 4.0 to 1.0 for the four most recent quarters;

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

maintain the ratio of consolidated 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 tranches of amortizing senior notes were issued in March 2009: \$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 a principal payment of \$15.0 million on its 5.82% senior notes during the quarter ended March 31, 2010.

The Partnership has a \$300 million revolving credit facility, and at March 31, 2010, \$226 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

Table of Contents

commitment to a maximum of \$450 million on the same terms. However, under the current market conditions, the Partnership cannot be certain that its lenders will elect to participate in the accordion feature. To the extent the lenders decline to participate, the Partnership may elect to bring new lenders into the facility, but cannot make any assurance that the additional credit capacity will be available on existing terms.

The Partnership had \$74.0 million and \$28.0 million outstanding on its revolving credit facility at March 31, 2010 and December 31, 2009, respectively. The weighted average interest rate at March 31, 2010 and December 31, 2009 was 1.37% and 2.07%, respectively.

The revolving credit facility contains covenants requiring the Partnership 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.

The Partnership was in compliance with all terms under its long-term debt as of March 31, 2010.

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 \$619.4 million and \$627.5 million at March 31, 2010 and December 31, 2009, respectively, for the senior notes. The carrying value of the Partnership's long-term debt was \$615.6 million and \$630.8 million at March 31, 2010 and December 31, 2009, respectively, for the senior notes. The fair value is estimated by management using comparable term risk-free treasury issues with a market rate component determined by current financial instruments with similar characteristics which is a Level 3 measurement. Since the Partnership's credit facility is variable rate debt, its fair value approximates its carrying amount.

9. Net Income Per Unit Attributable to Limited Partners and Adoption of Two-Class Method

Basic and diluted net income per unit attributable to limited partners are the same since the Partnership has no potentially dilutive securities outstanding.

The holders of the IDRs elected to cap the distribution at Tier III for the quarters ending September 30, 2009 and December 31, 2009.

Table of Contents**10. Related Party Transactions*****Reimbursements to Affiliates of our General Partner***

The Partnership's general partner does not receive any management fee or other compensation for its management of Natural Resource Partners L.P. However, in accordance with the partnership agreement, the general partner and its affiliates are reimbursed for expenses incurred on the Partnership's behalf. All direct general and administrative expenses are charged to the Partnership as incurred. The Partnership also reimburses indirect general and administrative costs, including certain legal, accounting, treasury, information technology, insurance, administration of employee benefits and other corporate services incurred by our general partner and its affiliates.

The reimbursements to affiliates of the Partnership's general partner for services performed by Western Pocahontas Properties and Quintana Minerals Corporation totaled \$1.8 million and \$1.7 million for the three months ended March 31, 2010 and 2009, respectively. At March 31, 2010 the Partnership also had accounts payable to affiliates of \$0.2 million.

Transactions with Cline Affiliates

Various companies controlled by Chris Cline lease coal reserves from the Partnership, and the Partnership provides coal transportation services to them for a fee. Mr. Cline, both individually and through another affiliate, Adena Minerals, LLC, owns a 31% interest in the Partnership's general partner and in the incentive distribution rights of the Partnership, as well as 13,510,072 common units. At March 31, 2010, the Partnership had accounts receivable totaling \$4.9 million from Cline affiliates. For the three months ended March 31, 2010 and 2009, the Partnership had total revenue of \$11.4 million and \$6.2 million, respectively, from these companies. In addition, the Partnership has also received \$30.9 million in advance minimum royalty payments that have not been recouped with Cline affiliates.

Quintana Capital Group GP, Ltd.

Corbin J. Robertson, Jr. is a principal in Quintana Capital Group GP, Ltd., which controls several private equity funds focused on investments in the energy business. In connection with the formation of Quintana Capital, the Partnership adopted a formal conflicts policy that establishes the opportunities that will be pursued by the Partnership and those that will be pursued by Quintana Capital. The governance documents of Quintana Capital's affiliated investment funds reflect the guidelines set forth in NRP's conflicts policy.

A fund controlled by Quintana Capital owns 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 Global pursuant to which the two companies have agreed to jointly pursue the development of coal handling and preparation plants. The Partnership owns and leases the plants to Taggart Global, which designs, builds and operates 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 four facilities under this agreement with Taggart with a total cost of \$46.6 million. For each of the three month periods ending March 31, 2010 and 2009, the Partnership received total revenue of \$1.0 million from Taggart. At March 31, 2010, the Partnership had accounts receivable totaling \$0.3 million from Taggart.

A fund controlled by Quintana Capital owns Kopper-Glo, a small coal mining company that is one of the Partnership's lessees with operations in Tennessee. For each of the three month periods ending March 31, 2010 and 2009, the Partnership had total revenue of \$0.5 million from Kopper-Glo. The Partnership also had accounts receivable totaling \$0.1 million at March 31, 2010.

Office Building in Huntington, West Virginia

In 2008, Western Pocahontas Properties completed construction of an office building in Huntington, West Virginia. On January 1, 2009, the Partnership began leasing substantially all of two floors of the building from Western Pocahontas Properties and pays \$0.5 million in lease payments each year through December 31, 2018.

11. Commitments and Contingencies***Legal***

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

Table of Contents***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 March 31, 2010. The Partnership is not associated with any environmental contamination that may require remediation costs.

Acquisition

In conjunction with a definitive agreement, the Partnership may be obligated to purchase in excess of 171 million additional tons of coal reserves from Colt, LLC for an aggregate purchase price of \$205.0 million over the next two years as certain milestones are completed relating to construction of a new mine.

12. Major Lessees

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

	Three Months Ended March 31,			
	(Dollars in thousands) (Unaudited)			
	2010		2009	
	Revenues	Percent	Revenues	Percent
The Cline Group	\$ 11,385	18%	\$ 6,245	9%
Alpha Natural Resources	6,080	10%	7,308	11%

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, Nominating and Governance (CNG) Committee of GP Natural Resource Partners LLC's board of directors administers the Long-Term Incentive Plan. Subject to the rules of the exchange upon which the common units are listed at the time, the board of directors and the 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 CNG Committee may make grants under the Long-Term Incentive Plan to employees and directors containing such terms as it determines, including the vesting period. Outstanding grants vest upon a change in control of the Partnership, the general partner, or GP Natural Resource Partners LLC. If a grantee's employment or membership on the board of directors terminates for any reason, outstanding grants will be automatically forfeited unless and to the extent the CNG Committee provides otherwise.

A summary of activity in the outstanding grants for the first three months of 2010 are as follows:

Outstanding grants at the beginning of the period	653,598
Grants during the period	199,548
Grants vested and paid during the period	(133,782)
Forfeitures during the period	(832)

Outstanding grants at the end of the period

718,532

14

Table of Contents

Grants typically vest at the end of a four-year period and are paid in cash upon vesting. The liability fluctuates with the market value of the Partnership units and because of changes in estimated fair value determined each quarter using the Black-Scholes option valuation model. Risk free interest rates and volatility are reset at each calculation based on current rates corresponding to the remaining vesting term for each outstanding grant and ranged from 0.34% to 2.01% and 35.04% to 57.22%, respectively at March 31, 2010. The Partnership's historic distribution rate of 6.61% was used in the calculation at March 31, 2010. Projected forfeitures were 2,472 and 3,160 at March 31, 2010 and 2009 based upon historical forfeitures. The Partnership recorded expenses related to its plan to be reimbursed to its general partner of \$1.8 million and \$2.9 million for the three month periods ended March 31, 2010 and 2009, respectively. In connection with the Long-Term Incentive Plan, payments are typically made during the first quarter of the year. Payments of \$3.2 million and \$2.9 million were paid during the three month periods ended March 31, 2010 and 2009, respectively.

In connection with the phantom unit awards granted since February 2008, the CNG Committee also granted tandem Distribution Equivalent Rights, or DERs, which entitle the holders to receive distributions equal to the distributions paid on the Partnership's common units. The DERs are only applicable to the grants since 2008 that vest in 2012 through 2014 and, at the discretion of the CNG Committee, may be included with awards granted in the future. The DERs are payable in cash upon vesting but may be subject to forfeiture if the grantee ceases employment prior to vesting.

The unaccrued cost associated with the outstanding grants and related DERs at March 31, 2010 was \$14.3 million.

14. Distributions

On February 12, 2010, the Partnership paid a quarterly distribution \$0.54 per unit to all holders of common units.

15. Subsequent Events

The following represents material events that have occurred subsequent to March 31, 2010 through the time of the Partnership's filing with the Securities and Exchange Commission:

Acquisitions

On April 26, 2010, the Partnership acquired the rights to aggregates on a 1,000 acre property in Northern California from Sierra Silica Resources LLC for \$17.0 million.

Equity Offering

On April 7, 2010, the Partnership closed an underwritten public offering of 4,576,700 common units at \$25.17 per common unit. The Partnership used a portion of the net proceeds of approximately \$112.5 million from this offering, including the Partnership's general partner's proportionate capital contribution, to repay all of the indebtedness outstanding under the Partnership's credit facility and intend to use the remaining cash for general partnership purposes, including financing future acquisitions, such as subsequent closings under the transaction with Colt LLC and other acquisitions in the ordinary course of business.

Distributions

On April 22, 2010, the Partnership declared a first quarter 2010 distribution of \$0.54 per unit. The distribution will be paid on May 14, 2010 to unitholders of record on May 5, 2010.

Operations

On April 9, the Partnership was notified by the Cline Group that it has temporarily idled certain sections of its Broad Run mine (which the Partnership refers to as its Gatling, West Virginia mine) and continues development work in other areas of the mine. Cline has indicated that it intends to restart the mine in the future, but an exact date is not known. Cline has communicated to the Partnership that it will continue to make its quarterly minimum payments with respect to this mine.

Table of Contents

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/A, as filed on March 3, 2010.

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, 2009, we owned or controlled approximately 2.1 billion tons of proven and probable coal reserves, of which 54% are low sulfur coal. We also owned approximately 130 million tons of aggregate reserves in Washington, Texas, Arizona and West Virginia. We lease our reserves to experienced mine operators under long-term leases that grant the operators the right to mine and sell our reserves in exchange for royalty payments.

Our revenue and profitability are dependent on our lessees' ability to mine and market our 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. In contrast, our aggregate properties are typically mined by regional operators with significant experience and knowledge of the local markets. The aggregates are sold at current market prices, which historically have increased along with the producer price index for sand and gravel. Over the long term, both our coal and aggregate royalty revenues are affected by changes in the market for and the market price of the commodities.

In our 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 or aggregates they sell, subject to minimum monthly, quarterly or annual payments. These minimum royalties are generally recoupable over a specified period of time (usually two to five years) if sufficient royalties are generated from production in those future periods. We do not recognize these minimum royalties as revenue until the applicable recoupment period has expired or they are recouped through production. Until recognized as revenue, these minimum royalties are recorded as deferred revenue, a liability on our balance sheet.

In addition to coal and aggregate royalty revenues, we generated approximately 24% of our first quarter 2010 revenues from other sources, as compared to 21% in the first quarter of 2009. These other sources include: coal processing and transportation fees; overriding royalties; royalties on oil and gas; wheelage payments; rentals; property tax revenue; minimums received as revenue; and timber.

Our Current Liquidity Position

As of March 31, 2010, we had \$226 million in available capacity under our existing credit facility, which does not mature until March 2012, as well as approximately \$62.9 million in cash. On April 7, 2010, we completed an equity offering in which we received net proceeds of \$110.2 million excluding our general partner's proportionate capital contribution. We used these proceeds to pay down all of our borrowings under our credit facility, and intend to use the remaining cash for general partnership purposes and to fund acquisitions, including three aggregates acquisitions that we announced in April and the Colt acquisition discussed below.

Pursuant to the purchase and sale agreement signed in connection with the Colt acquisition, we expect to fund an additional \$205 million over the next two years, of which approximately \$125 million is anticipated to be funded over the remainder 2010, as the operator achieves various development milestones. We anticipate funding these acquisitions through the use of the available capacity under our credit facility and through the issuance of debt and/or equity in the capital markets. We believe that we have enough liquidity to meet our current capital needs.

In connection with the Colt acquisition, the holders of our incentive distribution rights agreed to forego approximately \$7.35 million in distributions with respect to each of the third and fourth quarters of 2009. In addition, because we amortize substantially all of our long-term debt, we have no need to pay off or refinance any debt obligations other than our regularly scheduled principal payments.

Table of Contents

Current Results

As of March 31, 2010, our coal and aggregate reserves were subject to 215 leases with 77 lessees. For the three months ended March 31, 2010, our lessees produced 11.4 million tons of coal and aggregates, generating \$48.1 million in royalty revenues from our properties, and our total revenues were \$63.5 million.

After a difficult coal market in 2009, we began to see signs of improvement in the first quarter of 2010. Although our total revenues and coal royalty revenues declined slightly as compared to the fourth quarter of 2009, coal prices, particularly for metallurgical coal increased during the quarter as demand also improved. Because approximately 39% of our coal royalty revenues and 33% of the related production during the first quarter of 2010 were from metallurgical coal, we are in position to benefit as the global economy recovers and the demand for steel increases. We anticipate that metallurgical coal prices should continue to increase over 2010 and expect that during 2010 we will experience gradual improvements similar to the changes we saw in the latter part of 2009.

Even though coal royalty revenues from our Appalachian properties represented 64% of our total revenues in the first quarter of 2010, this percentage has continued to decline as we are diligently working to diversify our holdings by expanding our presence in the Illinois Basin and through additional aggregates acquisitions. Through our relationship with the Cline Group, we expect our Illinois Basin assets to contribute even more significantly to our total revenues in 2010.

Political, Legal and Regulatory Environment

The political, legal and regulatory environment is becoming increasingly difficult for the coal industry. In June 2009, the White House Council on Environmental Quality announced a Memorandum of Understanding among the Environmental Protection Agency, or EPA, Department of Interior, and the U.S. Army Corps of Engineers concerning the permitting and regulation of coal mines in Appalachia. While the Council described this memorandum as an unprecedented step[s] to reduce environmental impacts of mountaintop coal mining, the memorandum broadly applies to all forms of coal mining in Appalachia. The memorandum contemplates both short-term and long-term changes to the process for permitting and regulating coal mines in Appalachia.

These new processes, as yet undefined by EPA, impact only six Appalachian states. In connection with this initiative, the EPA has used its authority to create significant delays in the issuance of new permits and the modification of existing permits. The all-encompassing nature of the changes suggests that implementation of the memorandum will generate continued uncertainty regarding the permitting of coal mines in Appalachia for some time and inevitably will lead, at a minimum, to substantial delays and increased costs.

In addition to the increased oversight of the EPA, the Mine Safety and Health Administration, or MSHA, has increased its involvement in the approval of plans and enforcement of safety issues in connection with mining. The recent mine disaster at Massey's Upper Big Branch Mine will likely lead to even more scrutiny by MSHA of our lessees' operations, as well as possible additional mine safety legislation being considered by Congress. MSHA's involvement has increased the cost of mining due to more frequent citations and much higher fines imposed on our lessees as well as the overall cost of regulatory compliance. Combined with the difficult economic environment and the higher costs of mining in general, MSHA's recent increased participation in the mine development process could significantly delay the opening of new mines.

The United States Congress has been considering multiple bills that would regulate domestic carbon dioxide emissions, but no such bill has yet received sufficient Congressional support for passage into law. The existing Clean Air Act is also a possible mechanism for regulating greenhouse gases. In April 2007, the U.S. Supreme Court rendered its decision in *Massachusetts v. EPA*, finding that the EPA has authority under the Clean Air Act to regulate carbon dioxide emissions from automobiles and can decide against regulation only if the EPA determines that carbon dioxide does not significantly contribute to climate change and does not endanger public health or the environment. In response to *Massachusetts v. EPA*, in July 2008, the EPA issued a notice of proposed rulemaking requesting public comment on the regulation of greenhouse gases, or GHGs. On October 27, 2009 EPA announced how it will establish thresholds for phasing-in and regulating greenhouse gas emissions under various provisions of the Clean Air Act. Three days later, on October 30, 2009, EPA published a final rule in the Federal Register that requires the reporting of greenhouse gas emissions from all sectors of the American economy, although reporting of emissions from underground coal mines and coal suppliers as originally proposed has been deferred pending further review. On

December 15, 2009, EPA published a formal determination that six greenhouse gases, including carbon dioxide and methane, endanger both the public health and welfare of current and future generations. In the same Federal Register rulemaking, EPA found that emission of greenhouse gases from new motor vehicles and their engines contribute to greenhouse gas pollution. Although *Massachusetts v. EPA* did not involve the EPA's authority to regulate

Table of Contents

greenhouse gas emissions from stationary sources, such as coal-fueled power plants, the decision is likely to impact regulation of stationary sources.

On June 26, 2009, the U.S. House of Representatives approved adoption of the American Clean Energy and Security Act of 2009, also known as the Waxman-Markey cap-and-trade legislation or ACESA. The purpose of ACESA is to control and reduce emissions of GHGs in the United States. GHGs are certain gases, including carbon dioxide and methane, that may be contributing to warming of the Earth's atmosphere and other climatic changes. The net effect of ACESA will be to impose increasing costs on the combustion of carbon-based fuels such as coal.

The U.S. Senate has begun work on its own legislation for controlling and reducing emissions of GHGs in the United States. If the Senate adopts GHG legislation that is different from ACESA, the Senate legislation would need to be reconciled with ACESA and both chambers would be required to approve identical legislation before it could become law. The President has indicated that he is in support of the adoption of legislation to control and reduce emissions of GHGs through an emission allowance permitting system that results in fewer allowances being issued each year but that allows parties to buy, sell and trade allowances as needed to fulfill their GHG emission obligations. Although it is not possible at this time to predict whether or when the Senate may act on climate change legislation or how any bill approved by the Senate would be reconciled with ACESA, any laws or regulations that may be adopted to restrict or reduce emissions of GHGs could have an adverse effect on demand for our coal.

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)

	For the Three Months Ended March 31, (Unaudited)	
	2010	2009
Net cash provided by operating activities	\$ 41,881	\$ 43,552
Less scheduled principal payments	(15,192)	(192)
Less reserves for future principal payments	(8,059)	(8,059)
Add reserves used for scheduled principal payments	15,192	192
Distributable cash flow	\$ 33,822	\$ 35,493

Recent 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.

Sierra Silica. In April 2010, we acquired the rights to aggregates on a 1,000 acre property in Northern California from Sierra Silica Resources LLC for \$17.0 million.

North American Limestone. In April 2010, we signed an agreement for the construction of a fine grind processing facility for high calcium carbonate limestone located in Putnam County, Indiana. The total cost for the facility is not to exceed \$6.5 million. Upon signing the agreement we funded approximately \$1.0 million.

Table of Contents

Northgate-Thayer. In March 2010, we acquired approximately 100 acres of mineral and surface rights related to dolomite reserves in White County, Indiana from a local operator for a purchase price of \$7.5 million. As of March 31, 2010 we had funded \$3.0 million of the acquisition. The remaining payments are expected to be paid over the next three months upon completion of certain development milestones.

Massey-Override. In March 2010, we acquired from Massey Energy subsidiaries overriding royalty interests in coal reserves located in southern West Virginia and eastern Kentucky. Total consideration for this purchase was \$3.0 million.

AzConAgg. In December 2009, we acquired approximately 230 acres of mineral and surface rights related to sand and gravel reserves in southern Arizona from a local operator for \$3.75 million.

Colt. In September 2009, we 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. In January 2010, we closed the second transaction for \$40.0 million and acquired approximately 19.5 million tons of reserves. As of March 31, 2010, we had acquired approximately 22.8 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, we acquired approximately 121 acres of limestone reserves in Wise County, Texas from Blue Star Materials, LLC for a purchase price of \$24 million funded with cash and borrowings under the Partnership's credit facility.

Gatling Ohio. In May 2009, we completed the purchase of the membership interests in two companies from Adena Minerals, LLC, an affiliate of the Cline Group. The companies own 51.5 million tons of coal reserves and infrastructure assets at Cline's Yellowbush Mine located on the Ohio River in Meigs County, Ohio. We 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, we 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.

Macoupin. In January 2009, we acquired approximately 82 million tons of 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.

Table of Contents**Results of Operations**

	Three Months Ended		Increase (Decrease)	Percentage Change
	March 31, 2010	2009		
(In thousands, except percent and per ton data) (Unaudited)				
Coal:				
<i>Coal royalty revenues</i>				
<i>Appalachia</i>				
Northern	\$ 4,417	\$ 3,043	\$ 1,374	45%
Central	31,808	37,878	(6,070)	(16%)
Southern	4,200	5,097	(897)	(18%)
Total Appalachia	40,425	46,018	(5,593)	(12%)
Illinois Basin	4,210	4,251	(41)	(1%)
Northern Powder River Basin	2,526	2,338	188	8%
Total	\$ 47,161	\$ 52,607	\$ (5,446)	(10%)
<i>Production (tons)</i>				
<i>Appalachia</i>				
Northern	1,247	1,099	148	13%
Central	6,396	7,989	(1,593)	(20%)
Southern	701	841	(140)	(17%)
Total Appalachia	8,344	9,929	(1,585)	(16%)
Illinois Basin	1,147	1,326	(179)	(13%)
Northern Powder River Basin	1,311	1,227	84	7%
Total	10,802	12,482	(1,680)	(13%)
<i>Average gross royalty per ton</i>				
<i>Appalachia</i>				
Northern	\$ 3.54	\$ 2.77	\$ 0.77	28%
Central	4.97	4.74	0.23	5%
Southern	5.99	6.06	(0.07)	(1%)
Total Appalachia	4.84	4.63	0.21	5%
Illinois Basin	3.67	3.21	0.46	14%
Northern Powder River Basin	1.93	1.91	0.02	1%
Combined average gross royalty per ton	4.37	4.21	0.16	4%
Aggregates:				
Royalty revenue	\$ 816	\$ 930	\$ (114)	(12%)
Aggregate royalty bonus	\$ 75	\$ 720	\$ (645)	(90%)
Production	605	690	(85)	(12%)
Average base royalty per ton	\$ 1.35	\$ 1.35	\$	

Coal Royalty Revenues and Production. Coal royalty revenues comprised approximately 74% and 79% of our total revenue for each of the three month periods ended March 31, 2010 and 2009, respectively. The following is a

discussion of the coal royalty revenues and production derived from our major coal producing regions:

Appalachia. Primarily due to lower production by our lessees in the Central and Southern Appalachian regions, coal royalty revenues decreased in the three month period ended March 31, 2010 compared to the same period of 2009. The lower production was due to a number of factors, including temporary idling of mines, a difficult regulatory environment, increasingly difficult geologic conditions, reserve depletion, production curtailments related to a fire at a preparation plant and some mines moving to adjacent properties. This decline in production was in part offset by a higher royalty per ton in the Northern and Central Appalachian regions. While there are signs that the market conditions are starting to improve, particularly for metallurgical coal, we expect that our lessees in Appalachia will continue to experience these difficulties.

Illinois Basin. Production decreased primarily due to a mine moving off our property and lower shipments from our Williamson property. The production decrease was nearly offset due to higher royalty per ton being realized, keeping coal royalty revenues nearly constant.

Table of Contents

Northern Powder River Basin. Coal royalty revenues and production increased on our Western Energy property due to the normal variations that occur due to the checkerboard nature of ownership.

Aggregates Royalty Revenues and Production. Aggregate production decreased during the first quarter resulting in lower royalty revenue. The lower production is mainly attributed to lower demand in the region.

Other Operating Results

Coal Processing and Transportation Revenues. We generated \$1.6 million and \$1.9 million in processing revenues for the three month periods ended March 31, 2010 and 2009. 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, we own coal handling and transportation infrastructure in West Virginia, Ohio and Illinois. In contrast to our typical royalty structure, we receive a fixed rate per ton for coal transported over these facilities. For the assets other than our loadout facility at the Shay No. 1 mine in Illinois, we operate coal handling and transportation infrastructure and have subcontracted out that responsibility to third parties. We generated transportation fees from these assets of approximately \$2.8 million and \$2.1 million for the quarters ended March 31, 2010 and 2009, respectively.

Additional Revenues. In addition to coal royalties, aggregate royalties, coal processing and transportation revenues, we generated approximately 17% and 13% of our first quarter revenues from other sources in both 2010 and 2009, respectively. These other sources include: oil and gas royalties, property taxes, minimums recognized, overriding royalties, timber, rentals and wheelage.

Operating costs and expenses. Included in total expenses are:

Depreciation, depletion and amortization of \$11.4 million and \$13.1 million for the three month periods ended March 31, 2010 and 2009, respectively. This decrease was primarily due to lower production.

General and administrative expenses of \$6.5 million and \$7.5 million for the three month periods ended March 31, 2010 and 2009, respectively. The change in general and administrative expense is primarily due to accruals under our long-term incentive plan attributable to fluctuations in our unit price.

Interest Expense. Interest expense was higher for the first quarter of 2010 when compared to the first quarter of 2009 due to additional debt incurred to fund acquisitions and higher interest rates.

Liquidity and Capital Resources

Cash Flows and Capital Expenditures

We satisfy our working capital requirements with cash generated from operations. Since our initial public offering, we have financed our property acquisitions with available cash, borrowings under our revolving credit facility, and the issuance of our senior notes and additional units. While our ability to satisfy our debt service obligations and pay distributions to our unitholders depends in large part on our future operating performance, our ability to make acquisitions will depend on prevailing economic conditions in the financial markets as well as the coal industry and other factors, some of which are beyond our control. For a more complete discussion of factors that will affect cash flow we generate from our operations, please read Item 1A. Risk Factors. in this Form 10-Q and in our Form 10-K/A for the year ended December 31, 2009. Our capital expenditures, other than for acquisitions, have historically been minimal.

Net cash provided by operations for the three months ended March 31, 2010 and 2009 was \$41.9 million and \$43.6 million, respectively. Approximately 70% to 80% of our cash provided by operations has historically been generated from coal royalty revenues.

Net cash used in investing activities for the three months ended March 31, 2010 and 2009 was \$46.2 million and \$96.8 million, respectively. For the three months ended March 31, 2010 and 2009, substantially all of our investing activities consisted of acquiring coal reserves, plant and equipment and other mineral rights.

Table of Contents

Net cash flows used in financing for the three months ended March 31, 2010 was \$15.5 million. During the first three months of 2010, we had proceeds from loans of \$46.0 million offset by repayment of debt of \$15.2 million and retirement of a \$3.0 million obligation related to the purchase of coal reserves and infrastructure. We also paid distributions of \$43.3 million. During the same period for 2009, net cash provided in financing activities was \$64.4 million, which included proceeds from loans of \$303.0 million, principal repayments of \$151.2 million, retirement of obligation related to acquisitions of \$40.0 million and \$46.7 million for distributions to partners.

Most of our lessees are required to make minimum annual or quarterly payments, which are generally recoupable against future production royalties. These minimum payments increase cash flows in the period received, but may not increase revenues until recouped against production royalties or the contractual recoupment period expires. Total deferred revenue as of March 31, 2010 was \$80.0 million, which may reduce future cash flows when lessees recoup against production royalties.

Long-Term Debt

At March 31, 2010, our debt consisted of:

- \$74 million of our \$300 million floating rate revolving credit facility, due March 2012;
- \$35 million of 5.55% senior notes due 2013;
- \$43.7 million of 4.91% senior notes due 2018;
- \$150 million of 8.38% senior notes due 2019;
- \$84.6 million of 5.05% senior notes due 2020;
- \$2.1 million of 5.31% utility local improvement obligation due 2021;
- \$40.2 million of 5.55% senior notes due 2023;
- \$210 million of 5.82% senior notes due 2024; and
- \$50 million of 8.92% senior notes due 2024.

Other than the 5.55% senior notes due 2013, which have semi-annual interest payments, all of our senior notes require annual principal payments in addition to semi-annual interest payments. The principal payments on the 5.82% senior notes due 2024 began March 2010, the principal payments of the 8.38% senior notes due in 2019 do not begin until March 2013 and the principal payments of the 8.92% senior notes do not begin until March 2014. We also make annual principal and interest payments on the utility local improvement obligation.

Credit Facility. We have a \$300 million revolving credit facility, and at March 31, 2010 we had approximately \$226 million available to us under the facility. Under an accordion feature in the credit facility, we may request our lenders to increase their aggregate commitment to a maximum of \$450 million on the same terms. However, under current market conditions, we cannot be certain that our lenders will elect to participate in the accordion feature. To the extent the lenders decline to participate, we may elect to bring new lenders into the facility, but cannot make any assurance that the additional credit capacity will be available to us on existing 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 governing the facility 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

Table of Contents

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 1.00.

In March 2009, we issued \$150 million of 8.38% notes maturing March 25, 2019 and \$50 million of 8.92% notes maturing March 2024. These senior notes provide that in the event that our 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.

Shelf Registration Statement/Equity Offering

In addition to our credit facility, on February 27, 2009 we filed an automatically effective shelf registration statement on Form S-3 with the SEC that is available for registered offerings of common units and debt securities. The amounts, prices and timing of the issuance and sale of any equity or debt securities will depend on market conditions, our capital requirements and compliance with our credit facility and senior notes.

On April 7, 2010, we closed an underwritten public offering of 4,576,700 common units at \$25.17 per common unit. We used a portion of the net proceeds of approximately \$112.5 million from this offering, including our general partner's proportionate capital contribution, to repay all of the indebtedness outstanding under our credit facility and intend to use the remaining cash for general partnership purposes, including funding future acquisitions, including closings under the transaction with Colt LLC and other acquisitions in the ordinary course of business.

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

Partnership Agreement

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, we reimburse our general partner and its affiliates 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. Cost reimbursements due our general partner may be substantial and will reduce our cash available for distribution to unitholders. The reimbursements to our general partner for services performed by Western Pocahontas Properties and Quintana Minerals Corporation totaled \$1.8 million and \$1.7 million for the three months ended March 31, 2010 and 2009, respectively. For additional information, please read Certain Relationships and Related Transactions, and Director Independence Omnibus Agreement.

Table of Contents***Transactions with Cline Affiliates***

Various companies controlled by Chris Cline lease coal reserves from NRP, and we provide coal transportation services to them for a fee. Mr. Cline, both individually and through another affiliate, Adena Minerals, LLC, owns a 31% interest in NRP's general partner and in the incentive distribution rights of NRP, as well as 13,510,072 common units. At March 31, 2010, we had accounts receivable totaling \$4.9 million from Cline affiliates. For the three months ended March 31, 2010 and 2009, we had total revenue of \$11.4 million and \$6.2 million, respectively, from these companies. In addition, we have received \$30.9 million in advance minimum royalty payments that have not been recouped.

Quintana Capital Group GP, Ltd.

Corbin J. Robertson, Jr. is a principal in Quintana Capital Group GP, Ltd., which controls several private equity funds focused on investments in the energy business. In connection with the formation of Quintana Capital, we adopted a formal conflicts policy that establishes the opportunities that will be pursued by NRP and those that will be pursued by Quintana Capital. The governance documents of Quintana Capital's affiliated investment funds reflect the guidelines set forth in NRP's conflicts policy.

A fund controlled by Quintana Capital owns a significant membership interest in Taggart Global USA, LLC, including the right to nominate two members of Taggart's 5-person board of directors. We currently have 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. We 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, we have acquired four facilities under this agreement with Taggart with a total cost of \$46.6 million. For each of the three month periods ending March 31, 2010 and 2009, we received total revenue of \$1.0 million from Taggart. At March 31, 2010, we had accounts receivable totaling \$0.3 million from Taggart.

In June 2007, a fund controlled by Quintana Capital acquired Kopper-Glo, a small coal mining company that is one of our lessees with operations in Tennessee. For each of the three month periods ending March 31, 2010 and 2009, we had total revenue of \$0.5 million from Kopper-Glo. We also had accounts receivable totaling \$0.1 million from Kopper-Glo at March 31, 2010.

Office Building in Huntington, West Virginia

In 2008, Western Pocahontas Properties Limited Partnership completed construction of an office building in Huntington, West Virginia. On January 1, 2009, we began leasing substantially all of two floors of the building from Western Pocahontas at market rates. The terms of the lease were approved by our Conflicts Committee. We pay \$0.5 million each year in lease payments.

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 March 31, 2010. 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:

Table of Contents

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. As evidenced by the current market, a substantial or extended decline in coal prices could materially and adversely affect us in two ways. First, lower prices may reduce the quantity of coal that may be economically produced from our properties. This, in turn, could reduce our coal royalty revenues and the value of our coal reserves. Second, even if production is not reduced, the royalties we receive on each ton of coal sold may be reduced. Additionally, volatility in coal prices could make it difficult to estimate with precision the value of our coal reserves and any coal reserves that we may consider for acquisition.

Interest Rate Risk

Our exposure to changes in interest rates results from our borrowings under our revolving credit facility, which are subject to variable interest rates based upon LIBOR. At March 31, 2010, we had \$74.0 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, 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.

Table of Contents

Part II. Other Information

Item 1.

Legal

Proceedings

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

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/A for the year ended December 31, 2009.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

- 1.1 Underwriting Agreement, dated as of April 1, 2010, by and among Natural Resource Partners L.P., GP Natural Resource Partners LLC and NRP (GP) LP, and UBS Securities LLC and Barclays Capital Inc., as representatives of the underwriters set forth in Schedule 1 to the Underwriting Agreement (incorporated by reference to Exhibit 1.1 to Current Report on Form 8-K filed on April 5, 2010).
- 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.

Table of Contents

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: May 6, 2010

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

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

Date: May 6, 2010

By: /s/ Dwight L. Dunlap

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

Date: May 6, 2010

By: /s/ Kenneth Hudson

Kenneth Hudson
Controller
(Principal Accounting Officer)

28

/TD>

In thousands

Three Months Ended

Nine Months Ended

September 30,

September 30,

2009

2008

2009

2008

Regulated waste management services

\$

212,509

\$

194,141

\$

622,136

	\$
	556,955
Regulated returns management services	
	15,986
	16,125
	53,984
	58,576
Total revenue	228,495
	210,266
	676,120
	615,531
Table of Contents	42

Net interest expense

7,841

6,740

21,145

19,326

Income before income taxes

56,609

51,809

174,690

151,559

Income taxes	20,145	20,335	65,994	59,595
Net income attributable to Stericycle, Inc.	\$ 36,464	\$ 31,474	\$ 108,696	\$ 91,964
Depreciation and amortization	\$ 7,520	\$ 6,186	\$ 21,421	\$ 17,668

Detailed information for our Foreign Countries reporting segment is as follows:

In thousands

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Regulated waste management services	\$ 69,341	\$ 66,832	\$ 188,074	\$ 194,137
Net interest expense	1,373	1,693	4,145	4,815
Income before income taxes	13,064	10,669	31,029	24,657
Income taxes	2,965	2,902	8,494	7,038
Net income	10,099	7,767	22,535	17,619
Less: net income attributable to				
noncontrolling interests	37	14	148	7
Net income attributable to Stericycle, Inc.	\$ 10,062	\$ 7,753	\$ 22,387	\$ 17,612
Depreciation and amortization	\$ 2,439	\$ 2,465	\$ 7,042	\$ 7,620

NOTE 13 FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities

(Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 Valuations based on 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 data for substantially the full term of the assets or liabilities.

Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and

may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels. The impact of our creditworthiness has been considered in the fair value measurements noted below. In addition, the fair value measurement of a liability must reflect the nonperformance risk of an entity.

Level 1: At September 30, 2009, we have \$14.3 million in cash and cash equivalents, and \$1.5 million of short-term investments that we carry on our books at fair value using Level 1 inputs. At December 31, 2008, we had \$9.1 million in cash and cash equivalents and \$1.4 million of short-term investments on our books at fair value using market price inputs.

Level 2: In October 2008, we entered into three interest rate swap contracts, covering \$225 million of our borrowings outstanding under our senior credit facility. The objective of the swaps is to reduce the risk of volatile interest expense by fixing the rate. The interest rate swaps are designated as cash flow hedges; the notional amounts and all other significant terms of the swap agreement are matched to the provisions and terms of the variable rate debt hedged. We apply hedge accounting to these instruments with changes in the fair value of the swap agreements recorded as a component of other comprehensive income. The fair value of the hedge is recorded as a liability of \$2.0 million at September 30, 2009, of which \$1.4 million is current. At December 31, 2008 the fair value of the hedge was recorded as a liability of \$4.8 million, of which \$2.1 million was current. The fair value was determined using market data inputs to calculate expected future interest rates. The cash streams attributable to the difference between expected future rates and the fixed rate payable is discounted to arrive at the fair value of the three hedges.

At September 30, 2009, the fair value of the Company's debt obligations was estimated at \$818.4 million, compared to a carrying amount of \$826.0 million. At December 31, 2008, the fair value of the Company's debt obligations was estimated at \$771.5 million, compared to a carrying amount of \$792.7 million. This fair value was estimated using market interest rates for comparable instruments. The Company has no current plans to retire a significant amount of its debt prior to maturity.

There were no movements of items between fair value hierarchies.

NOTE 14 DERIVATIVE INSTRUMENTS

In July 2009 we settled our remaining GBP Sterling forward hedge related to an intercompany loan. The notional value of the contract was £8.0 million Sterling and settled at \$13.9 million USD. Settlement of the contract resulted in an immaterial charge to earnings.

In October 2008, Stericycle entered into three interest rate swap contracts covering \$225 million of our borrowings outstanding under our senior credit facility. The objective of the swap is to reduce the risk of volatile interest expense by fixing the rate. The contracts are as follows:

In thousands

Notional Amount	Fixed Interest Rate	Variable Interest Rate	Expiration Date
\$ 125,000	2.79%	1 Month Libor	October 2009
\$ 75,000	2.79%	1 Month Libor	April 2010
\$ 25,000	2.94%	1 Month Libor	October 2010

We entered into the interest rate swaps in order to manage the risk of interest rate changes to our interest expense. The interest rate swaps are designated as cash flow hedges; the notional amounts and all other significant terms of the swap agreement are matched to the provisions and terms of the variable rate debt hedged. The fair market of the three hedges is recorded as a liability of \$2.0 million at September 30, 2009, of which \$1.4 million is current. At September 30, 2009, the hedges were determined to be 100% effective. Gains or losses on hedges are reclassified into interest expense when the effect of the hedged item is recognized in earnings. The fair market value was determined using market data inputs to calculate expected future interest rates. The cash streams attributable to the difference between expected future rates and the fixed rate payable is discounted to arrive at the fair value of the three hedges.

NOTE 15 NEW BORROWINGS

In June 2009 we entered into a term loan credit agreement with Bank of America, N.A. as administrative agent and lender, and other lenders from time to time party to the credit agreement. The initial term loan under the term loan credit agreement was \$50 million.

In July 2009 we obtained additional term loans of \$145 and \$20 million concurrently with entering into the first and second amendments to the term loan credit agreement. These additional term loans increased our aggregate borrowings under the term loan credit agreement from \$50 million to \$215 million. It reduced the aggregate amount for which we may request additional term loans from \$175 million to \$10 million.

Term loans under the term loan credit agreement bear interest at fluctuating interest rates determined, for any one-month or other applicable interest period, by reference to the London Interbank Offered Rate, or LIBOR, plus the applicable margin provided in the credit agreement. The applicable margin is based on our consolidated leverage ratio and ranges from 2.75% to 3.50%. As of September 30, 2009, the applicable margin was 3.0%. The term loan duration is three years, maturing on June 24, 2012. After the first year, we are required to make quarterly principal payments of 2.5% of the principal amount of the outstanding term loans.

NOTE 16 SUBSEQUENT EVENT

On October 23, 2009 an interest rate swap contract with a notional amount of \$125 million expired.

The Company evaluated subsequent events through November 6, 2009, the date of filing this Quarterly Report on Form 10-Q.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We were incorporated in 1989 and presently serve a very diverse customer base of approximately 440,000 customers throughout the United States, Argentina, Canada, Chile, Ireland, Mexico, Puerto Rico, Romania and the United Kingdom. We have fully integrated networks including processing centers and transfer and collection sites. We use these networks to provide a broad range of services to our customers including regulated waste management services and regulated return management services. Regulated waste management services include regulated medical waste removal services, sharps management services, products and services for infection control, and safety and compliance programs. Regulated return management services are physical services provided to companies and individual businesses that assist with the handling of products that are being removed from the supply chain due to recalls and expiration. These services also include advanced notification technology that is used to communicate specific instructions to the users of the product. Our waste treatment technologies include autoclaving, incineration, chemical treatment and our proprietary electro-thermal-deactivation system. In addition, we have technology licensing agreements with companies located in Japan, Brazil, and South Africa.

Other than the adoption of the FASB accounting standards for business combinations (see Note 11 New Accounting Standards, for the impact on the financial statements), there were no material changes in the Company's critical accounting policies since the filing of its 2008 Form 10-K. As discussed in the 2008 Form 10-K, the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates.

THREE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2008

The following summarizes the Company's operations:

In thousands, except per share data

	Three Months Ended September 30,			
	2009		2008	
	\$	%	\$	%
Revenues	\$ 297,836	100.0	\$ 277,098	100.0
Cost of revenues	156,919	52.7	154,069	55.6
Gross profit	140,917	47.3	123,029	44.4
Selling, general and administrative expenses	57,906	19.4	51,425	18.6
Arbitration settlement and related expenses	--	--	96	--
Acquisition related transaction expenses	3,478	1.2	--	--
Income from operations	79,533	26.7	71,508	25.8
Net interest expense	9,214	3.1	8,433	3.0
Income tax expense	23,110	7.8	23,237	8.4
Net income attributable to Stericycle, Inc.	\$ 46,526	15.6	\$ 39,227	14.2
Earnings per share- diluted	\$ 0.54		\$ 0.45	

Revenues: Our revenues increased \$20.7 million, or 7.5%, to \$297.8 million in 2009 from \$277.1 million in 2008. Domestic revenues increased \$18.2 million, or 8.7%, to \$228.5 million from \$210.3 million in 2008 as internal revenue growth for domestic small account customers increased by \$9.2 million, or approximately 8%, and internal revenue growth for large quantity customers increased by \$2.3 million, or approximately 3%. Internal revenue for returns management, which excludes acquisitions less than one year old, decreased by \$4.0 million. Total regulated waste and returns management domestic acquisitions less than one year old contributed approximately \$10.7 million to the increase in domestic revenues.

International revenues increased \$2.5 million, or 3.8%, to \$69.3 million from \$66.8 million in 2008. Internal growth in the international segment contributed \$4.1 million, or over 6% in increased revenues, before taking into consideration the effect of exchange rates and acquisitions. The effect of exchange rate fluctuations negatively impacted international revenues approximately \$10.1 million while acquisitions less than one year old contributed an additional \$8.5 million in international revenues.

Cost of Revenues: Our cost of revenues increased \$2.8 million, or 1.8%, to \$156.9 million during 2009 from \$154.1 million during 2008. Our domestic cost of revenues increased \$3.6 million, or 3.2%, to \$114.6 million from \$111.0 million in 2008 as a result of costs related to a proportional increase in revenues from acquisitions and internal growth. Our international cost of revenues slightly decreased \$0.8 million, or 1.7%, to \$42.3 million from \$43.1 million in 2008 primarily driven by the impact of exchange rates and favorable impact from integration of acquisitions. Our gross margin percentage increased to 47.3% during 2009 from 44.4% during 2008 primarily due to a decrease in fuel and energy costs in 2009.

Selling, General and Administrative Expenses: Selling, general and administrative expenses, excluding acquisition related costs, increased approximately \$6.5 million, or 12.6%, to \$57.9 million, for the quarter ended September 30, 2009 from \$51.4 million for the comparable quarter in 2008. As a percentage of revenue, these costs increased by 0.8% for the quarter ended September 30, 2009 compared to the same period in 2008 partially due to higher expensing of stock options.

Income from Operations: Income from operations increased to \$79.5 million for the quarter ended September 30, 2009 from \$71.5 million for the comparable quarter in 2008, an increase of 11.2%. During the quarter ended September 30, 2009, we recognized \$3.5 million in transactional expenses related to acquisition as result of adopting changes issued by the FASB to accounting rules related to business combinations that unfavorably impacted diluted earnings per share by \$0.04. During the quarter ended September 30, 2008, we recognized additional business dispute settlement and related costs of \$0.1 million which had a nominal impact on our earnings per share.

Net Interest Expense: Net interest expense increased to \$9.2 million during the quarter ended September 30, 2009 from \$8.4 million during the comparable quarter in 2008 due to due to increased borrowings related to acquisitions partially offset by lower interest rates.

Income Tax Expense: Income tax expense slightly decreased to \$23.1 million for the quarter ended September 30, 2009 from \$23.2 million for the comparable quarter in 2008. In September 2009 we recognized a net \$1.8 million benefit related to prior years unrecognized tax benefits which positively impacted our diluted earnings per share by \$0.02. The effective tax rates for the quarters ended September 30, 2009 and 2008 were 33.2% and 37.2%, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2008

The following summarizes the Company's operations:

In thousands, except per share data

	Nine Months Ended September 30,			
	2009		2008	
	\$	%	\$	%
Revenues	\$ 864,194	100.0	\$ 809,668	100.0
Cost of revenues	458,940	53.1	449,895	55.6
Gross profit	405,254	46.9	359,773	44.4
Selling, general and administrative expenses	166,563	19.3	152,256	18.8

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Arbitration settlement and related expenses	--	--	5,595	0.7
Acquisition related transaction expenses	5,418	0.6	--	--
Income from operations	233,273	27.0	201,922	24.9
Net interest expense	25,290	2.9	24,141	3.0
Income tax expense	74,488	8.6	66,633	8.2
Net income attributable to Stericycle, Inc.	\$ 131,083	15.2	\$ 109,576	13.5
Earnings per share- diluted	\$ 1.51		\$ 1.24	

Revenues: Our revenues increased \$54.5 million, or 6.7%, to \$864.2 million in 2009 from \$809.7 million in 2008. Domestic revenues increased \$60.6 million, or 9.8%, to \$676.1 million from \$615.5 million in 2008 as internal revenue growth for domestic small account customers increased by \$30.3 million, or approximately 9%, and internal revenue growth for large quantity customers increased by \$10.1 million, or approximately 5%. Internal revenue, which excludes acquisitions less than one year old, for returns management decreased by \$19.0 million. Total regulated waste and returns management domestic acquisitions less than one year old contributed approximately \$39.2 million to the increase in domestic revenues.

International revenues decreased \$6.1 million, or 3.1%, to \$188.1 million in 2009 from \$194.1 million in 2008. Internal growth in the international segment contributed \$15.2 million, or approximately 8% in increased revenues, before taking into consideration the effect of exchange rates, acquisitions, and divestitures. The effect of exchange rate fluctuations unfavorably impacted international revenues approximately \$40.6 million while acquisitions less than one year old contributed an additional \$19.3 million in international revenues.

Cost of Revenues: Our cost of revenues increased \$9.0 million, or 2.0%, to \$458.9 million during 2009 from \$449.9 million during 2008. Our domestic cost of revenues increased \$16.3 million, or 5.0%, to \$339.9 million from \$323.6 million in 2008 as a result of costs related to a proportional increase in revenues from acquisitions and internal growth. Our international cost of revenues decreased \$7.3 million, or 5.7% to \$119.0 million from \$126.3 million in 2008 as a result of costs related to proportional increase in revenues from acquisitions and internal revenue growth. Our gross margin percentage increased to 46.9% during 2009 from 44.4% during 2008 due to a decrease in fuel and energy costs.

Selling, General and Administrative Expenses: Selling, general and administrative expenses, excluding acquisition related costs, increased \$14.3 million, or 9.4%, to \$166.6 million, for the nine months ended September 30, 2009 from \$152.3 million for the comparable period in 2008. As a percentage of revenue, these costs increased by 0.5% for the nine months ended September 20, 2009 compared to the same period in 2008 primarily due to higher expensing of stock options.

Income from Operations: Income from operations increased to \$233.3 million for the nine months ended September 30, 2009 from \$201.9 million for the comparable period in 2008, an increase of 15.5%. During the nine months ended September 30, 2009, we recognized \$5.4 million in transactional expenses as result of adopting changes issued by the FASB to accounting rules related to business combinations that unfavorably impacted diluted earnings per share by \$0.06. During 2008, we recognized a business dispute settlement and related costs of \$5.6 million, which unfavorably impacted diluted earnings per share by \$0.04.

Net Interest Expense: Net interest expense increased to \$25.3 million during the nine months ended September 30, 2009 from \$24.1 million during the comparable period in 2008 due to due to increased borrowings partially offset by lower interest rates.

Income Tax Expense: Income tax expense increased to \$74.5 million for the nine months ended September 30, 2009 from \$66.6 million for the comparable period in 2008. The increase was due to higher taxable income partially offset by a lower effective tax rate. In September 2009 we recognized a net \$1.8 million benefit related to prior years unrecognized tax benefits which positively impacted our diluted earnings per share by \$0.02. The effective tax rates for the nine months ended September 30, 2009 and 2008 were 36.2% and 37.8%, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our senior credit facility of \$850.0 million maturing in August 2012, and our term loans maturing in June 2012, requires us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments. The financial debt covenants are the same for both the senior credit facility and the term loan credit agreement. At September 30, 2009, we were in compliance with all of our financial debt covenants.

As of September 30, 2009, we had \$228.3 million of borrowings outstanding under our senior unsecured credit facility, which includes foreign currency borrowings of \$13.8 million. Our senior credit facility allows us to borrow on a short term basis at a rate equal to the higher of (i) the prime rate or (ii) the federal funds rate plus 0.5%, or we can borrow at one-month London Interbank Offered Rate, or LIBOR, plus the applicable margin in the credit agreement. The applicable margin is based on our consolidated leverage ratio and ranges from 0.375% to 1.375%. As of September 30, 2009, the applicable margin was 0.75% and the weighted average rate of interest on the unsecured revolving credit facility was 1.33% per annum. In addition, we had \$222.8 million committed to outstanding letters of credit. At September 30, 2009 we had \$597.7 million in other debt outstanding, which includes promissory notes issued in connection with acquisitions during 2004 through 2009, other foreign subsidiary bank debt and capital leases.

In June 2009, we entered into a term loan credit agreement with Bank of America, N.A. as administrative agent and lender, and other lenders from time to time party to the credit agreement. The initial term loan under the term loan credit agreement was \$50 million. In July 2009 we received under the accordion feature of the term loan credit agreement an additional \$165 million of term loans, bringing the total term loans to \$215 million.

Term loans under the term loan credit agreement bear interest at fluctuating interest rates determined, for any one-month or other applicable interest period, by reference to the LIBOR plus the applicable margin provided in the credit agreement. The applicable margin is based on our consolidated leverage ratio and ranges from 2.75% to 3.50%. As of September 30, 2009, the applicable margin was 3.0%. The weighted average rate of interest on the term loan was 3.25% per annum. After the first year, we are required to make quarterly principal payments of 2.5% of the principal amount of the outstanding term loans.

On April 15, 2008, we entered into a note purchase agreement (the "note purchase agreement") with nine institutional purchasers pursuant to which we issued and sold to the purchasers \$100 million of our 5.64% senior notes due April 15, 2015 (the "Notes"). The Notes bear interest at the fixed rate of 5.64% per annum. Interest is payable in arrears semi-annually on April 15 and October 15 beginning on October 15, 2009, and principal is payable at the maturity of the notes on April 15, 2015.

The Notes are unsecured obligations and rank pari passu with our obligations under our senior unsecured credit facility pursuant to our credit agreement with Bank of America, N.A. and the other lenders party to the credit agreement. We applied the proceeds from the sale of the Notes to reduce our borrowings under our revolving credit facility under our senior unsecured credit facility. The Notes contain customary events of default, including our failure to pay any principal, interest or other amount when due, our violation of our affirmative or negative covenants or a breach of our representations and warranties. Upon the occurrence of an event of default, payment of the Notes may be accelerated by the holders of the Notes.

Working Capital: At September 30, 2009, our working capital decreased \$26.5 million to \$18.3 million compared to \$44.8 million at December 31, 2008. Of the decrease in working capital, \$6.3 million decrease in deferred tax assets due to utilization of acquired foreign net operating losses, as well as \$18.3 million increase in current debt relates to financing of foreign acquisitions, an increase in our accrued miscellaneous tax liability of \$7.2 million, and an increase of \$3.0 million in accrued interest due to increased borrowings. Offsetting these working capital decreases was a reduction of accrued liabilities related to a \$12.0 million payment of an acquisition purchase accrual.

Net Cash Provided or Used: Net cash provided by operating activities increased \$57.7 million, or 36.9%, to \$213.9 million during the nine months ended September 30, 2009 compared to \$156.3 million for the comparable period in 2008. The increase in operating cash was primarily due to higher earnings and increased collections on receivables.

Net cash used in investing activities for the nine months ended September 30, 2009 was \$136.1 million compared to \$82.3 million in the comparable period in 2008. The difference is mainly due to \$107.1 million paid for acquisitions and international investments in 2009, compared to \$46.6 million for the same period in the prior year, partially offset by lower capital expenditures which decreased during the current period by \$6.1 million when compared to same period of the prior year.

Net cash used in financing activities was \$70.2 million during the nine months ended September 30, 2009 compared to \$79.9 million for the comparable period in 2008. A decrease of \$70.3 million for the repurchase and cancellation of common stock over the prior year period was partially offset by a \$163.4 million increase for repayment of long-term debt. We had new private placement debt in 2008 of \$100.0 million compared to a new term loan in 2009 of \$215.0 million.

Guarantees: We have guaranteed a loan to JPMorganChase Bank N.A. on behalf of Shiraishi-Sogyo Co. Ltd (Shiraishi). Shiraishi is a customer in Japan that is expanding their medical waste management business and has a one year loan with a current balance of \$5.4 million with JPMorganChase Bank N.A. that expires in May 2010.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks arising from changes in interest rates. In 2008, we entered into three interest rate derivative transactions that effectively fix the interest rate on the applicable notional amounts of our variable rate debt as follows:

In thousands			
Notional Amount	Fixed Interest Rate	Variable Interest Rate	Expiration Date
\$ 125,000	2.79%	1 Month Libor	October 2009
\$ 75,000	2.79%	1 Month Libor	April 2010
\$ 25,000	2.94%	1 Month Libor	October 2010

The interest rate swaps are designated as cash flow hedges; the notional amounts and all other significant terms of the swap agreement are matched to the provisions and terms of the variable rate debt hedged. We apply hedge accounting to account for these instruments.

Our potential additional interest expense over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate on all of our variable rate obligations would be approximately \$3.6 million on a pre-tax basis.

We have exposure to commodity pricing for gas and diesel fuel for our trucks and for the purchase of containers and boxes. We do not hedge these items to manage the exposure.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chairman, President and Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter covered by this Report. On the basis of this evaluation, our Chairman, President and Chief Executive Officer and our Chief Financial Officer each concluded that our disclosure controls and procedures were effective.

The term "disclosure controls and procedures" is defined in Rule 13a-14(e) of the Securities Exchange Act of 1934 as "controls and other procedures designed to ensure that information required to be disclosed by the issuer in the reports, files or submits under the Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms." Our disclosure controls and procedures are designed to ensure that material information relating to us and our consolidated subsidiaries is accumulated and communicated to our management, including our Chairman, President and Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding our required disclosures.

Internal Control Over Financial Reporting

During the quarter ended September 30, 2009, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely materially to affect, our internal controls over financial reporting.

FROM TIME TO TIME WE ISSUE FORWARD-LOOKING STATEMENTS RELATING TO SUCH THINGS AS ANTICIPATED FINANCIAL PERFORMANCE, BUSINESS PROSPECTS, ACQUISITION ACTIVITIES AND SIMILAR MATTERS.

THESE FORWARD-LOOKING STATEMENTS MAY INVOLVE RISKS AND UNCERTAINTIES, SOME OF WHICH ARE BEYOND OUR CONTROL (FOR EXAMPLE, GENERAL ECONOMIC CONDITIONS). OUR ACTUAL RESULTS COULD DIFFER SIGNIFICANTLY FROM THE RESULTS DESCRIBED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE SUCH DIFFERENCES INCLUDE DIFFICULTIES IN COMPLETING THE INTEGRATION OF ACQUIRED BUSINESSES, CHANGES IN GOVERNMENTAL REGULATION OF MEDICAL WASTE COLLECTION AND TREATMENT, AND INCREASES IN TRANSPORTATION AND OTHER OPERATING COSTS, AS WELL AS VARIOUS OTHER FACTORS.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 10, Legal Proceedings, in the Notes to the Condensed Consolidated Financial Statements (Item 1 of Part I).

ITEM 2. CHANGES IN SECURITIES, USES OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

In May 2002 our Board of Directors authorized the Company to repurchase up to 6,000,000 shares of our common stock, in the open market or through privately negotiated transactions, at times and in amounts in the Company's discretion.

In February 2005, at a time when we had purchased a total of 2,956,860 shares, the Board authorized us to purchase an additional 2,956,860 shares.

In February 2007, at a time when we had purchased an additional 3,142,080 shares since the prior increase in authorization, the Board authorized us to purchase up to an additional 3,142,080 shares.

In May 2007, at a time when we had purchased an additional 1,187,142 shares since the prior increase in authorization, the Board authorized us to purchase up to an additional 1,187,142 shares.

In May 2008, at a time when we had purchased an additional 2,938,496 shares since the prior increase in authorization, the Board authorized us to purchase up to an additional 2,938,496 shares, thereby again giving the Company the authority to purchase up to a total of 6,000,000 additional shares.

Under resolutions that our Board of Directors adopted in May 2002, February 2005, February 2007, May 2007 and May 2008, we have been authorized to purchase a cumulative total of 16,224,578 shares of our common stock on the open market. As of September 30, 2009, we had purchased a cumulative total of 13,092,447 shares.

The following table provides information about our purchases during the nine months ended September 30, 2009 of shares of our common stock:

Issuer Purchase of Equity Securities

Period	Total Number of Share (or Units) Purchased	Average Price Paid per Share (or Unit)	Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1- January 31, 2009	340,965	\$ 48.11	340,965	4,215,843
February 1- February 28, 2009	143,998	46.59	143,998	4,071,845
March 1- March 31, 2009	51,383	46.90	51,383	4,020,462
April 1- April 30, 2009	39,862	48.52	39,862	3,980,600

May 1- May 31, 2009	300	46.53	300	3,980,300
June 1- June 30, 2009	--	--	--	3,980,300
July 1- July 31, 2009	--	--	--	3,980,300
August 1- August 31, 2009	126,578	49.41	126,578	3,853,722
September 1- September 30, 2009	721,591	48.47	721,591	3,132,131

ITEM 6. EXHIBITS

31.1

Rules 13a-14(a)/15d-14(a) Certification of Mark C. Miller, Chairman, President and Chief Executive Officer

31.2

Rule 13a-14(a)/15d-14(a) Certification of Frank J.M. ten Brink, Executive Vice President and Chief Financial Officer

32

Section 1350 Certification of Mark C. Miller, Chairman, President and Chief Executive Officer, and Frank J.M. ten Brink, Executive Vice President and Chief Financial Officer

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, thereunto duly authorized.

Dated: November 6, 2009

STERICYCLE, INC.

(Registrant)

By: /s/ Frank J.M. ten Brink

Frank J.M. ten Brink

Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)