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NATURAL RESOURCE PARTNERS LP
Form S-1/A
September 09, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 9, 2002

REGISTRATION NO. 333-86582

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 3

TO

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NATURAL RESOURCE PARTNERS L.P.
(Exact Name of Registrant as Specified in Its Charter)

| | | |
|--|---|--|
| DELAWARE | 1222 | 35-2164875 |
| (State or Other Jurisdiction of Incorporation or Organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

601 JEFFERSON STREET, SUITE 3600
HOUSTON, TEXAS 77002
(713) 751-7507
(Address, Including Zip Code, and Telephone Number, including Area Code, of
Registrant's Principal Executive Offices)

DWIGHT L. DUNLAP
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(713) 751-7507
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. []

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED SEPTEMBER 9, 2002

PROSPECTUS

(NATURAL RESOURCE PARTNERS L.P. LOGO)
NATURAL RESOURCE PARTNERS L.P.
4,576,890 COMMON UNITS
REPRESENTING LIMITED PARTNER INTERESTS
\$ PER COMMON UNIT

We are selling 2,598,750 common units and Arch Coal, Inc., as the selling unitholder, is selling 1,901,250 common units. We will not receive any proceeds from the sale of common units by Arch Coal, Inc. We and Arch Coal, Inc. have granted the underwriters a 30-day option to purchase up to an additional 675,000 common units on the same terms and conditions as set forth in this prospectus to cover over-allotments of common units, if any. To the extent the underwriters do

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not exercise this option in full, affiliates of our general partner will purchase up to an additional 76,890 common units at the initial public offering price, such that a minimum of 4,576,890 common units will be sold in the offering.

We are a limited partnership recently formed by Western Pocahontas Properties Limited Partnership, Great Northern Properties Limited Partnership, New Gauley Coal Corporation and Arch Coal, Inc. This is the initial public offering of our common units. We expect the initial public offering price to be between \$19.00 and \$21.00 per unit. We intend to make a minimum quarterly distribution of available cash of \$0.50 per unit, or \$2.00 per unit on an annualized basis, before any distributions are paid on our subordinated units, to the extent we have sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner. The common units have been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol "NRP."

INVESTING IN THE COMMON UNITS INVOLVES RISK. PLEASE READ "RISK FACTORS" BEGINNING ON PAGE 14.

These risks include the following:

- We may not have sufficient cash from operations to pay the minimum quarterly distribution following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.
- A substantial or extended decline in coal prices could reduce our coal royalty revenues and the value of our coal reserves.
- Our lessees' coal mining operations are subject to operating risks that could result in lower coal royalty revenues to us.
- Our lessees are subject to federal, state and local laws and regulations that may limit their ability to produce and sell coal from our properties.
- We depend on a limited number of primary operators for a significant portion of our coal royalty revenues.
- Due to our lack of asset diversification, adverse developments in the coal industry could reduce our coal royalty revenues.
- A recent federal district court ruling could preclude our lessees from obtaining Clean Water Act permits required for some of their future operations and could also result in the revocation of existing permits.
- The owners of our general partner and their affiliates may engage in substantial competition with us and have other conflicts of interest and limited fiduciary responsibilities that may permit them to favor their own interests to your detriment.
- Even if unitholders are dissatisfied, they cannot easily remove our general partner.
- The control of our general partner may be transferred to a third party without unitholder consent.
- You will experience immediate and substantial dilution of \$6.44 per common unit.
- You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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| | PER COMMON UNIT | TOTAL |
|--|-----------------------|-------|
| | ----- | ----- |
| Public Offering Price | \$ | \$ |
| Underwriting Discount | \$ | \$ |
| Proceeds to Natural Resource Partners L.P. before expenses | \$ | \$ |
| Proceeds to Selling Unitholder | \$ | \$ |

The underwriters expect to deliver the common units on or about , 2002.

SALOMON SMITH BARNEY
A.G. EDWARDS & SONS, INC.
FRIEDMAN BILLINGS RAMSEY
RBC CAPITAL MARKETS

LEHMAN BROTHERS

, 2002

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

Until _____, 2002 (25 days after the date of this prospectus), all dealers effecting transactions in our common units, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before investing in the common units. You should read the entire prospectus carefully, including the financial statements and the notes to those statements. The information presented in this prospectus assumes (1) an initial public offering price of \$20.00 per common unit, (2) that the underwriters' over-allotment option is not exercised and (3) that an additional 76,890 common units are purchased by New Gauley Coal Corporation and Great Northern Properties Limited Partnership. We present the reserve information for Natural Resource Partners in this prospectus on a pro forma basis as if the reserves had been contributed to us on December 31, 2001. You should read "Summary of Risk Factors" beginning on page 2 and "Risk Factors" beginning on page 14 for more information about important risks that you should consider before buying common units. In this prospectus, we refer to Western Pocahontas Properties Limited Partnership, Great Northern Properties Limited Partnership and New Gauley Coal Corporation collectively as the WPP Group. The estimates of Arch Coal, Inc.'s and the WPP Group's proven and probable reserves have been audited as of December 31, 2001 by Weir International Mining Consultants and Staggs Resource Consultants, Inc., respectively. Their Coal Reserve Audit Summary Reports have been included in this prospectus as Appendices E and F, respectively. Additionally, we have included a "Glossary of Terms" as Appendix C.

NATURAL RESOURCE PARTNERS

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We are a limited partnership recently formed by the WPP Group, the largest owner of coal reserves in the United States other than the U.S. government, and Arch Coal, Inc., the second largest U.S. coal producer. We engage principally in the business of owning and managing 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, 2001, we controlled approximately 1.15 billion tons of proven and probable coal reserves in eight states. In 2001, our lessees produced 29 million tons of coal from our properties and our total revenues were \$47.2 million on a pro forma basis, including coal royalty revenues of \$42.4 million.

We lease coal reserves to experienced mine operators under long-term leases that grant the operators the right to mine our coal reserves in exchange for royalty payments. Our royalty payments are based on the higher of a percentage of the gross sales price or a fixed price per ton of coal sold, subject to a minimum payment. As of September 1, 2002, our reserves were located on 45 separate properties and are subject to 62 leases with 31 lessees. In 2001, approximately 57% of the coal produced from our properties came from underground mines and 43% came from surface mines. As of December 31, 2001, approximately 65% of our reserves were low sulfur coal. Included in our low sulfur reserves is compliance coal, which meets the standards imposed by the Clean Air Act and constitutes approximately 25% of our reserves. Coal produced from our properties is burned in electric power plants located east of the Mississippi River and in Montana and Minnesota. Approximately 12% of our lessees' 2001 coal production was metallurgical coal, which our lessees sold to steel companies in the Eastern United States, South America, Europe and Asia. The table below shows coal production, coal royalty revenues and reserve tonnage for our properties as of December 31, 2001 on a pro forma basis.

COAL ROYALTY REVENUES, PRODUCTION AND RESERVES BY REGION

| | YEAR ENDED DECEMBER 31, 2001 | | AT DECEMBER 31, 2001 |
|----------------------------|---------------------------------|------------|---------------------------------|
| | COAL ROYALTY REVENUES | PRODUCTION | PROVEN AND PROBABLE RESERVES |
| | (IN THOUSANDS) | | |
| Appalachia..... | \$32,327 | 19,648 | 958,581 |
| Illinois Basin..... | 3,155 | 2,659 | 28,398 |
| Western United States..... | 6,951 | 6,683 | 166,939 |
| | ----- | ----- | ----- |
| Total..... | \$42,433 | 28,990 | 1,153,918 |
| | ===== | ===== | ===== |

DEMAND FOR COAL

Over the last two decades, total domestic coal consumption in the United States has increased from approximately 733 million tons in 1981 to 1.1 billion tons in 2001. The growth in demand for coal has been primarily driven by growth in electricity consumption. In 2001, electric utilities accounted for approximately 90% of domestic coal consumption.

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We believe that demand for coal will continue to grow for the following reasons:

- Demand for electricity will continue to increase as the economy grows. In order to meet the projected increase in demand for electricity, demand for coal by electricity generators is expected to increase by 1.2% per year between 2000 and 2020. We believe much of the projected increase in demand for electricity will be supplied by existing coal-fired power plants because they possess excess capacity that can be utilized at low incremental costs.
- Coal prices have historically been lower and more stable than natural gas prices. The market price of natural gas has historically been more volatile and higher on an energy-equivalent basis than the market price of coal. While new natural gas-fired power plants generally are less expensive to construct than new coal-fired plants, we believe that higher prices and volatility will continue to make natural gas a less attractive energy source than coal for many utilities, particularly for baseload electricity generation.
- There is an abundant supply of coal. Coal makes up approximately 95% of fossil fuel reserves in the United States, with an estimated 250-year supply of coal based on current usage rates.
- Coal is increasingly less polluting. As a result of improved technology and coal consumption trends to lower sulfur coal, sulfur dioxide emissions from U.S. coal-fired power plants have declined by more than 20% since 1970, even as coal consumption for domestic electric power generation has almost tripled.
- Demand for non-compliance coal production will continue. Although the Clean Air Act emission requirements have caused a general shift in demand toward lower sulfur coal, we believe that demand for our medium and high sulfur coal will continue because utilities currently may satisfy the Clean Air Act requirements by (1) burning lower sulfur coal mixed with medium or high sulfur coal, (2) installing pollution control devices, such as scrubbers, to reduce emissions from high sulfur coal or (3) purchasing or trading emission credits.

SUMMARY OF RISK FACTORS

An investment in our common units involves risks associated with our business, regulatory and legal matters, our partnership structure and the tax characteristics of our common units. Please carefully read the risks relating to these matters under "Risk Factors."

RISKS RELATED TO OUR BUSINESS

- We may not have sufficient cash from operations to pay the minimum quarterly distribution following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.
- A substantial or extended decline in coal prices could reduce our coal royalty revenues and the value of our coal reserves.
- Our lessees' coal mining operations are subject to operating risks that could result in lower coal royalty revenues to us.
- We depend on a limited number of primary operators for a significant portion of our coal royalty revenues, and the loss of or reduction in production from any of our major operators could reduce our coal royalty

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revenues.

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- We may not be able to terminate our leases if any of our lessees declare bankruptcy, and we may experience delays and be unable to replace lessees that do not make royalty payments.
- If our lessees do not manage their operations well, their production volumes and our coal royalty revenues could decrease.
- Due to our lack of asset diversification, adverse developments in the coal industry could reduce our coal royalty revenues.
- Any decrease in demand for metallurgical coal could result in lower coal production by our lessees, which would thereby reduce our coal royalty revenues.

REGULATORY AND LEGAL RISKS

- Our lessees are subject to federal, state and local laws and regulations that may limit their ability to produce and sell coal from our properties.
- A substantial portion of our coal has a high sulfur content. This coal may become more difficult to sell because the Clean Air Act restricts the ability of electric utilities to burn high sulfur coal.
- A recent federal district court ruling could preclude our lessees from obtaining Clean Water Act permits required for some of their future operations and could also result in the revocation of existing permits.
- The Clean Air Act affects the end-users of coal and could significantly affect the demand for our coal and reduce our coal royalty revenues.
- We may become liable under federal and state mining statutes if our lessees are unable to pay mining reclamation costs.
- A recent federal district court decision could limit our lessees' ability to conduct underground mining operations.

RISKS RELATED TO OUR PARTNERSHIP STRUCTURE

- The WPP Group and Arch Coal may engage in substantial competition with us.
- The WPP Group, Arch Coal and their affiliates have conflicts of interest and limited fiduciary responsibilities, which may permit them to favor their own interests to your detriment.
- Even if unitholders are dissatisfied, they cannot easily remove our general partner.
- The control of our general partner may be transferred to a third party without unitholder consent.
- Our general partner's absolute discretion in determining the level of cash reserves may adversely affect our ability to make cash distributions to unitholders.

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- You will experience immediate and substantial dilution of \$6.44 per common unit.

TAX RISKS TO COMMON UNITHOLDERS

- The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to you.
- A successful IRS contest of the federal income tax positions we take may adversely affect the market for our common units, and the cost of any IRS contest will be borne by our unitholders and our general partner.
- You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.
- Tax gain or loss on disposition of common units could be different than expected.

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BUSINESS STRATEGY

We intend to execute the following strategies that we believe reflect our competitive strengths:

- Maximize royalty revenues from our existing properties. We work with our lessees by providing technical knowledge of our reserves, including information about title and geology. We also review mine plans to assure efficient recovery of reserves and periodically audit our lessees to verify that royalties have been properly paid.
- Explore new opportunities with our existing lessees. Our lessees are generally subsidiaries of large coal producers that have long-term plans to expand their operations. We intend to further develop our relationships with our current lessees in order to participate in future opportunities that our lessees may identify for acquiring or leasing new properties.
- Add new lessees to diversify our coal mine operator base. We have identified additional public and private coal mine operators that meet our guidelines as qualified lessee candidates. As we expand our royalty business, we will be seeking new lessees to mine our properties. The addition of these new lessees will allow us to further diversify our coal mine operator base.
- Expand and diversify our coal reserves. We intend to actively pursue opportunities to expand and diversify our reserves by acquiring additional coal properties that generate royalty income. We will review potential reserve acquisitions in all coal producing regions of the United States in order to acquire marketable reserves that we believe will be attractive to lessees. We expect to fund any acquisitions with borrowings under our credit facility and proceeds from the issuance of our common units.

COMPETITIVE STRENGTHS

We believe the following competitive strengths will enable us to execute our business strategies successfully:

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- Our royalty structure generates stable production and cash flow. Our leases provide for royalty rates generally equal to the higher of a percentage of the gross sales price or a fixed price per ton of coal, subject to a minimum payment. This structure generally allows our production and cash flow to be stable and predictable in periods of low coal prices, while enabling us to benefit during periods of higher coal prices.
- We do not directly bear operating costs and risks. Because we do not operate any mines, we do not bear ordinary operating costs and have limited direct exposure to environmental compliance, permitting and labor risks, which are principally borne by our lessees, the operators of the mines.
- We primarily lease to large lessees that have a diverse customer base. Our royalty income is primarily from leases to subsidiaries of publicly-held coal companies. In 2001, we derived approximately 76% of our revenues from subsidiaries of seven of the top ten coal producers in the United States.
- Our reserves are diverse and strategically located. Our reserves are geographically diverse and cover a broad range of heat and sulfur content. By offering both metallurgical and steam coal, our coal reserves are marketable to a diverse customer base, thereby enabling our lessees to adjust to changing markets and sustain sales volumes and prices.
- We are well-positioned to pursue acquisitions of coal reserves and other minerals. The coal royalty business is highly fragmented and characterized by numerous small entities that present potentially attractive acquisition opportunities. In conjunction with this offering, we are entering into a \$100 million credit facility that, combined with our ability to issue additional units, should provide the financial flexibility to pursue acquisitions. Upon the closing of this offering, we anticipate that we will have no outstanding indebtedness.

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- We have experienced, knowledgeable management. Our management team has a successful record of managing, leasing and acquiring properties. Each member of our management team has at least 20 years of experience in the mining industry.

OUR RELATIONSHIP WITH THE WPP GROUP AND ARCH COAL

The WPP Group and Arch Coal have a significant interest in our partnership through their combined ownership of a 79.6% limited partner interest and the 2% general partner interest in our partnership. Both the WPP Group and Arch Coal have a history of successfully completing and integrating acquisitions in the coal industry. We expect to pursue acquisitions with the WPP Group and Arch Coal, as well as with other companies. We may acquire coal reserve properties, other mineral properties or producing coal properties, in which event we would expect to work with a coal producing company that would acquire the mine assets and lease the reserves from us. While our relationship with both the WPP Group and Arch Coal should provide significant benefits to us, it is also a source of potential conflict. In addition, the WPP Group and Arch Coal may engage in substantial competition with us. Please read "Conflicts of Interest and Fiduciary Responsibilities" and "Certain Relationships and Related Transactions -- Omnibus Agreement."

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PARTNERSHIP STRUCTURE AND MANAGEMENT

Our operations will be conducted through, and our operating assets will be owned by, our subsidiaries. We will own our subsidiaries through an operating company, NRP (Operating) LLC. Upon consummation of the offering of the common units and the related transactions:

- NRP (GP) LP, our general partner, will own the 2% general partner interest in us, as well as 65% of the incentive distribution rights, which entitle the holder to receive a higher percentage of cash distributed in excess of \$0.55 per unit in any quarter;
- the WPP Group will own 25% of the incentive distribution rights and Arch Coal will own the remaining 10% of the incentive distribution rights;
- we will own 100% of the membership interests in the operating company; and
- the operating company will own 100% of the membership interests in its subsidiaries: NNG LLC, WPP LLC, GNP LLC and ACIN LLC.

Our general partner has sole responsibility for conducting our business and for managing our operations. Because our general partner is a limited partnership, its general partner, GP Natural Resource Partners LLC, will conduct its business and operations and the board of directors and officers of GP Natural Resource Partners LLC will make decisions on behalf of us. Arch Coal owns a 42.25% membership interest in and is entitled to nominate three directors, including one independent director, of GP Natural Resource Partners LLC. Robertson Coal Management LLC, a limited liability company wholly owned by Corbin J. Robertson, Jr., owns a 57.75% membership interest in and is entitled to nominate five directors, including two independent directors, of GP Natural Resource Partners LLC. Corbin J. Robertson, Jr. controls each entity comprising the WPP Group. Mr. Robertson owns the general partner of Western Pocahontas Properties Limited Partnership, 85% of the general partner of Great Northern Properties Limited Partnership and is the Chairman, Chief Executive Officer and controlling stockholder of New Gauley Coal Corporation. For additional disclosure regarding our formation and the negotiations that resulted in the division of responsibilities and ownership, please read "Certain Relationships and Related Transactions."

The senior executives and other officers who currently manage Western Pocahontas Properties Limited Partnership will continue to manage us. They will remain employees of Western Pocahontas Properties Limited Partnership and will allocate varying percentages of their time to managing our operations. Neither our general partner, GP Natural Resource Partners LLC, nor their affiliates will receive any management fee or other compensation in connection with the management of our business but will be entitled to be reimbursed for all direct and indirect expenses incurred on our behalf.

The offices of Western Pocahontas Properties Limited Partnership are located at P.O. Box 2827, 1035 Third Avenue, Suite 300, Huntington, West Virginia 25727 and the telephone number is (304) 522-5757. Our principal executive offices are located at 601 Jefferson Street, Suite 3600, Houston, Texas 77002 and our phone number is (713) 751-7507.

The chart on the following page depicts the organization and ownership of Natural Resource Partners after giving effect to the offering of the common units and the related formation transactions.

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[Chart depicting the organization and ownership of Natural Resource Partners]

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THE OFFERING

Common units offered by us.... 2,598,750 common units.

2,988,563 common units if the underwriters exercise their over-allotment option from us in full. To the extent the underwriters exercise their over-allotment option, the net proceeds received by us from the sale of 57.75% of the additional units pursuant to the over-allotment option will be used to redeem common units from Western Pocahontas Properties Limited Partnership and New Gauley Coal Corporation. To the extent the underwriters do not exercise this over-allotment option in full, Great Northern Properties Limited Partnership and, under certain circumstances, New Gauley Coal Corporation, will purchase up to an aggregate of 76,890 additional common units from us.

Common units offered by Arch
Coal as the selling
unitholder..... 1,901,250 common units.

2,186,437 common units offered by Arch Coal if the underwriters exercise their over-allotment option in full. We will not receive any proceeds from the sale of common units by Arch Coal.

Units outstanding after this
offering..... 12,005,000 common units and 12,005,000
subordinated units, each representing
approximately a 49% limited partner interest in
us.

Cash distributions..... We intend to make minimum quarterly
distributions of \$0.50 per common unit to the
extent we have sufficient cash from our
operations after establishment of cash reserves
and payment of fees and expenses, including
payments to our general partner. In general, we
will pay any cash distributions we make each
quarter in the following manner:

- first, 98% to the common units and 2% to the general partner, until each common unit has received a minimum quarterly distribution of \$0.50 plus any arrearages in the payment of the minimum quarterly distribution from prior quarters;
- second, 98% to the subordinated units and 2%

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to the general partner, until each subordinated unit has received a minimum quarterly distribution of \$0.50; and

- third, 98% to all units, pro rata, and 2% to the general partner, until each unit has received a distribution of \$0.55.

If cash distributions per unit exceed \$0.55 in any quarter, the holders of the incentive distribution rights will receive, on a pro rata basis, a higher percentage of the cash we distribute in excess of that amount in increasing percentages up to an aggregate of 48%. We refer to these distributions as incentive distributions.

We must distribute all of our cash on hand at the end of each quarter, after payment of fees and expenses, less reserves established by our general partner in its discretion. We refer to this cash as available cash, and we define its meaning in our partnership agreement and in the glossary in Appendix C. The

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amount of available cash, if any, at the end of any quarter may be greater than or less than the minimum quarterly distribution.

We believe, based on the assumptions beginning on page 44 of this prospectus, that we will have sufficient cash from operations to enable us to make the minimum quarterly distribution of \$0.50 on the common units and the subordinated units for each quarter through June 30, 2003. The amount of pro forma cash available for distribution generated during 2001 and the six months ended June 30, 2002 would have been sufficient to allow us to pay the full minimum quarterly distribution on the common units and 64.8% and 74.9%, respectively, of the minimum quarterly distribution on the subordinated units during these periods. Please read "Cash Available for Distribution" and Appendix D to this prospectus for the calculation of our ability to have paid the minimum quarterly distributions during these periods.

Subordination period.....

During the subordination period, the subordinated units will not be entitled to receive any distributions until the common units have received the minimum quarterly distribution plus any arrearages from prior quarters. The subordination period will end once we meet the financial tests in the

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partnership agreement, but it generally cannot end before September 30, 2007. When the subordination period ends, all remaining subordinated units will convert into common units on a one-for-one basis and the common units will no longer be entitled to arrearages.

Early conversion of
subordinated
units.....

If we meet the financial tests in the partnership agreement for any quarter ending on or after September 30, 2005, 25% of the subordinated units will convert into common units. If we meet these tests for any quarter ending on or after September 30, 2006, an additional 25% of the subordinated units will convert into common units. The early conversion of the second 25% of the subordinated units may not occur until at least one year after the early conversion of the first 25% of subordinated units.

Issuance of additional
units.....

In general, during the subordination period we may issue up to 6,002,500 additional common units, or 50% of the common units outstanding immediately after this offering, without obtaining unitholder approval. We can also issue an unlimited number of common units for acquisitions that increase cash flow from operations per unit on a pro forma basis, and we can issue additional common units if the proceeds of the issuance are used to repay up to \$25 million of certain of our indebtedness.

Limited voting rights.....

Our general partner will manage and operate us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or the directors of GP Natural Resource Partners LLC on an annual or other regular basis. Our general partner may not be removed except by the vote of the holders of at least 66 2/3% of the outstanding units, including units owned by our general partner and its affiliates,

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voting together as a single class. Upon the consummation of this offering, our general partner and its affiliates will own an aggregate of 81.3% of our common and subordinated units. This will give our general partner the practical ability to prevent its involuntary removal.

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Limited call right..... If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than their then current market price. Upon completion of this offering, our general partner and its affiliates will own 7,505,000, or 62.5%, of our outstanding common units and will not be able to exercise this call right. If we do not issue any equity securities prior to the expiration of the subordination period, upon the conversion of subordinated units into common units at the end of the subordination period, our general partner and its affiliates will own 81.3% of our outstanding common units and will be able to exercise this call right.

Estimated ratio of taxable income to distributions..... We estimate that if you own the common units that you purchase in this offering through December 31, 2004 you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 60% of the cash distributed to you with respect to that period. A substantial portion of the income that will be allocated to you is expected to be long-term capital gain, which for individuals is subject to a significantly lower maximum federal income tax rate (currently 20%) than ordinary income (currently taxable at a maximum rate of 38.6%). If you are an individual taxable at the maximum rate of 38.6% on ordinary income, the effect of this lower capital gains rate is to produce an after tax return to you that is the same as if the amount of federal ordinary taxable income allocated to you for that period were less than 30% of the cash distributed to you for that period. Please read "Material Tax Consequences -- Tax Consequences of Unit Ownership -- Ratio of Taxable Income to Distributions" for the basis of this estimate.

Exchange listing..... Our common units have been approved for listing on the New York Stock Exchange, or NYSE, subject to official notice of issuance, under the symbol "NRP."

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SUMMARY PRO FORMA FINANCIAL AND OPERATING DATA

We derived the summary pro forma combined information by combining the historical financial statements of Western Pocahontas Properties Limited Partnership, Great Northern Properties Limited Partnership, New Gauley Coal

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Corporation and the Arch Coal Contributed Properties as of June 30, 2002 and for the six months ended June 30, 2002 and the year ended December 31, 2001. We adjusted the summary pro forma combined financial statements to reflect net assets and operations that are not being contributed to us.

The pro forma as adjusted financial statements of Natural Resource Partners L.P. show the pro forma effect of the offering and the related transactions. We derived the summary pro forma as adjusted financial and operating data presented below as of June 30, 2002 and for the six months ended June 30, 2002 and the year ended December 31, 2001 from the unaudited pro forma combined financial statements. The pro forma as adjusted balance sheet assumes the offering and the related transactions occurred as of June 30, 2002, and the pro forma combined statements of revenues and direct costs and expenses assume that the offering and the related transactions occurred as of the beginning of the period presented. A more complete explanation of the pro forma adjustments can be found in "Notes to Pro Forma Financial Statements."

We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, the audited historical and the unaudited pro forma financial statements and the accompanying notes included elsewhere in this prospectus. You should read the table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations." While the WPP Group will contribute substantially all of its coal royalty producing assets and operations to us, it will retain some assets and liabilities.

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SUMMARY PRO FORMA FINANCIAL AND OPERATING DATA

| | YEAR ENDED DECEMBER 31, 2001 | | SIX MO JUNE |
|--|---------------------------------|------------------------------|---------------------------|
| | PRO FORMA COMBINED (A) | PRO FORMA AS ADJUSTED (B) | PRO FORMA COMBINED (A) |
| (IN THOUSANDS, EXCEPT PRICE DATA (UNAUDITED)) | | | |
| REVENUES AND DIRECT COSTS AND EXPENSES DATA: | | | |
| REVENUES: | | | |
| Coal royalties..... | \$42,433 | \$42,433 | \$ 22,775 |
| Gain on sale of property..... | 220 | 220 | -- |
| Lease and easement income..... | 381 | 381 | -- |
| Property taxes..... | 2,187 | 2,187 | 1,207 |
| Other..... | 2,028 | 2,028 | 1,263 |
| | ----- | ----- | ----- |
| Total revenues..... | 47,249 | 47,249 | 25,245 |
| DIRECT COSTS AND EXPENSES: | | | |
| General and administrative(c)..... | -- | -- | -- |
| Taxes other than income..... | 2,187 | 2,187 | 1,207 |
| Depreciation, depletion and amortization..... | 9,892 | 20,103 | 5,487 |
| Other..... | 283 | 283 | 411 |
| | ----- | ----- | ----- |
| Total expenses..... | 12,362 | 22,573 | 7,105 |

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| | | | |
|---|----------|----------|-----------|
| Excess of revenues over direct costs and expenses..... | \$34,887 | \$24,676 | \$ 18,140 |
| | ===== | ===== | ===== |
| BALANCE SHEET DATA (AT PERIOD END): | | | |
| Total assets..... | | | \$220,962 |
| Long-term debt..... | | | 46,531 |
| Deferred revenue..... | | | 20,303 |
| Total liabilities..... | | | 66,834 |
| Owners' equity/partners' capital(d)..... | | | 154,128 |
| OTHER DATA: | | | |
| Royalty coal tons produced by lessees..... | 28,990 | 28,990 | 13,735 |
| Average gross coal royalty per ton..... | \$ 1.46 | \$ 1.46 | \$ 1.66 |
| OTHER FINANCIAL DATA: | | | |
| Estimated available cash from operating surplus(c)..... | \$40,379 | \$40,379 | \$ 21,427 |

-
- (a) We derived the pro forma combined information by adjusting the historical WPP Group amounts to reflect net assets and operations that are not being contributed to us and by adding the historical Arch Coal Contributed Properties amounts being contributed to us. We also eliminated historical general and administrative expenses for the WPP Group in order to reflect only the direct costs and expenses for its operations.
- (b) The pro forma as adjusted information was derived by adjusting the pro forma combined information for the offering and related transactions.
- (c) We define available cash and operating surplus under "Cash Distribution Policy." Estimated available cash from operating surplus includes annual general and administrative costs of \$4.4 million that reflect our estimates of the costs of operating the properties contributed to us by the WPP Group and Arch Coal and the costs of being a publicly traded partnership. We base these estimates upon currently available information and they are subject to change. Please read "Cash Distribution Policy" and Appendix D. To the extent our general partner and its affiliates incur these costs on our behalf, we will reimburse them prior to making any distribution on the common units.
- (d) If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the common units at a price not less than their then market price. Upon completion of this offering, our general partner and its affiliates will own 62.5% of the outstanding common units. If we do not issue any equity securities prior to the expiration of the subordination period, upon the conversion of subordinated units into common units at the end of the subordination period, our general partner and its affiliates will own 81.3% of our outstanding common units and will be able to exercise this call right.

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SUMMARY OF CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES

NRP (GP) LP, our general partner, has a legal duty to manage us in a manner beneficial to our unitholders. This legal duty originates in state statutes and judicial decisions and is commonly referred to as a "fiduciary" duty. Because our general partner and its general partner, GP Natural Resource Partners LLC,

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are owned by the WPP Group, Robertson Coal Management LLC and Arch Coal, however, the officers and directors of GP Natural Resource Partners LLC also have fiduciary duties to manage GP Natural Resource Partners LLC's and our general partner's business in a manner beneficial to the owners of the WPP Group, Robertson Coal Management LLC and to the stockholders of Arch Coal. The officers of GP Natural Resource Partners LLC have significant relationships with, and responsibilities to, the WPP Group, and the directors of GP Natural Resource Partners LLC have significant relationships with, and responsibilities to, the WPP Group, Robertson Coal Management LLC and Arch Coal. As a result of these relationships, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and its affiliates, on the other hand. For a more detailed description of the conflicts of interest and fiduciary responsibilities of our general partner and GP Natural Resource Partners LLC, please read "Conflicts of Interest and Fiduciary Responsibilities."

Our partnership agreement limits the liability and reduces the fiduciary duties owed by our general partner to unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions that might otherwise constitute breaches of our general partner's fiduciary duty. By purchasing a common unit, you are treated as having consented to various actions contemplated in the partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

Although the WPP Group and Arch Coal have agreed in the omnibus agreement to restrictions on their ability to compete with us in the leasing of coal reserves, these restrictions are subject to numerous exceptions that will enable the WPP Group and Arch Coal to engage in substantial competition with us should they choose to do so. For a description of the terms of the omnibus agreement that contains these noncompete provisions, please read "Risk Factors -- The WPP Group and Arch Coal may engage in substantial competition with us" and "Certain Relationships and Related Transactions -- Omnibus Agreement."

We will enter into four coal mining leases with Ark Land Company, a subsidiary of Arch Coal. Please read "Certain Relationships and Related Transactions -- Coal Leases with Ark Land Company" for a description of these leases.

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RISK FACTORS

Limited partner interests are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included in this prospectus in evaluating an investment in our common units.

If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, we might not be able to pay the minimum quarterly distribution on our common units, the trading price of our common units could decline and you could lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

WE MAY NOT HAVE SUFFICIENT CASH FROM OPERATIONS TO PAY THE MINIMUM QUARTERLY DISTRIBUTION FOLLOWING ESTABLISHMENT OF CASH RESERVES AND PAYMENT OF FEES AND

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EXPENSES, INCLUDING PAYMENTS TO OUR GENERAL PARTNER.

The amount of cash we can distribute on our units principally depends upon the amount of royalties we receive from our lessees, which will fluctuate from quarter to quarter based on, among other things:

- the amount of coal our lessees are able to produce from our properties;
- the price at which our lessees are able to sell coal;
- the level of our operating costs, including payments to our general partner; and
- prevailing economic conditions.

In addition, the actual amount of cash we will have available for distribution will depend on other factors that include:

- the costs of acquisitions, if any;
- fluctuations in our working capital;
- the level of capital expenditures we make;
- the restrictions contained in our debt instruments and our debt service requirements;
- our ability to borrow under our working capital facility to make distributions to our unitholders; and
- the amount, if any, of cash reserves established by our general partner in its discretion.

In determining the number of units and the minimum quarterly distribution, we have made the assumptions set forth in "Cash Available for Distribution" about the factors listed above. These assumptions are inherently uncertain and are subject to significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those we expect. If these assumptions are not realized, we may not be able to pay the minimum quarterly distribution or any amount on the common units or the subordinated units, in which event the market price of the common units may decline materially.

You should also be aware that our ability to pay the minimum quarterly distribution each quarter depends primarily on our cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which is affected by non-cash items. As a result, we may make cash distributions during periods when we record losses and we may not make distributions during periods when we record net income.

The amount of available cash we need to pay the minimum quarterly distribution for four quarters on the common units, the subordinated units and the general partner interest to be outstanding immediately after the offering is approximately \$49 million. If we had completed the transactions contemplated in this prospectus on January 1, 2001, estimated available cash from operating surplus generated during 2001 and

the six months ended June 30, 2002 would have been approximately \$40.4 million and \$21.4 million, respectively. These amounts would have been sufficient to

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allow us to pay the full minimum quarterly distribution on the common units and 64.8% and 74.9%, respectively, of the minimum quarterly distribution on the subordinated units during these periods. For a calculation of our ability to make distributions to unitholders based on our pro forma results, please read "Cash Available for Distribution" and Appendix D.

A SUBSTANTIAL OR EXTENDED DECLINE IN COAL PRICES COULD REDUCE OUR COAL ROYALTY REVENUES AND THE VALUE OF OUR COAL RESERVES.

The prices our lessees receive for their coal depend upon factors beyond their or our control, including:

- the supply of and demand for domestic and foreign coal;
- weather conditions;
- the proximity to and capacity of transportation facilities;
- worldwide economic conditions;
- domestic and foreign governmental regulations and taxes;
- the price and availability of alternative fuels; and
- the effect of worldwide energy conservation measures.

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.

OUR LESSEES' COAL MINING OPERATIONS ARE SUBJECT TO OPERATING RISKS THAT COULD RESULT IN LOWER COAL ROYALTY REVENUES TO US.

Our coal royalty revenues are largely dependent on our lessees' level of production from our coal reserves. The level of our lessees' production is subject to operating conditions or events beyond their or our control including:

- the inability to acquire necessary permits or mining or surface rights;
- changes or variations in geologic conditions, such as the thickness of the coal deposits and the amount of rock embedded in or overlying the coal deposit;
- changes in governmental regulation of the coal industry or the electric utility industry;
- mining and processing equipment failures and unexpected maintenance problems;
- interruptions due to transportation delays;
- adverse weather and natural disasters, such as heavy rains and flooding;
- labor-related interruptions; and

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- fires and explosions.

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These conditions may increase our lessees' cost of mining and delay or halt production at particular mines either permanently or for varying lengths of time. Any interruptions to the production of coal from our reserves could reduce our coal royalty revenues.

WE DEPEND ON A LIMITED NUMBER OF PRIMARY OPERATORS FOR A SIGNIFICANT PORTION OF OUR COAL ROYALTY REVENUES, AND THE LOSS OF OR REDUCTION IN PRODUCTION FROM ANY OF OUR MAJOR OPERATORS COULD REDUCE OUR COAL ROYALTY REVENUES.

We depend on a limited number of primary operators for a significant portion of our coal royalty revenues. In 2001, the following six operators and their subsidiaries, affiliates or contractors, accounted for approximately 84% of our coal royalty revenues: Arch Coal, Inc. (25%), Massey Energy Company (14%), CONSOL Energy Inc. (12.5%), Western Energy Company (12.5%), Resource Development L.L.C. (11%) and Peabody Energy Corporation (9%). If reductions in production by our lessees are implemented on our properties and sustained, our revenues may be substantially affected. Additionally, if a lessee were to experience financial difficulty, the lessee might not be able to pay its royalty payments or continue its operations, which could have a material adverse impact on us.

WE MAY NOT BE ABLE TO TERMINATE OUR LEASES IF ANY OF OUR LESSEES DECLARE BANKRUPTCY, AND WE MAY EXPERIENCE DELAYS AND BE UNABLE TO REPLACE LESSEES THAT DO NOT MAKE ROYALTY PAYMENTS.

A failure on the part of our lessees to make coal royalty payments could give us the right to terminate the lease, repossess the property and enforce payment obligations under the lease. If we repossessed any of our properties, we would seek a replacement lessee. We might not be able to find a replacement lessee and, if we did, we might not be able to enter into a new lease on favorable terms within a reasonable period of time. In addition, the outgoing lessee could be subject to bankruptcy proceedings that could further delay the execution of a new lease or the assignment of the existing lease to another operator. If we enter into a new lease, the replacement operator might not achieve the same levels of production or sell coal at the same price as the lessee it replaced. In addition, it may be difficult for us to secure new or replacement lessees for small or isolated coal reserves, since industry trends toward consolidation favor larger-scale, higher-technology mining operations in order to increase productivity.

IF OUR LESSEES DO NOT MANAGE THEIR OPERATIONS WELL, THEIR PRODUCTION VOLUMES AND OUR COAL ROYALTY REVENUES COULD DECREASE.

We depend on our lessees to effectively manage their operations on our properties. Our lessees make their own business decisions with respect to their operations within the constraints of their leases, including decisions relating to:

- marketing of the coal mined;
- mine plans, including the amount to be mined and the method of mining;
- processing and blending coal;

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- credit risk of their customers;
- permitting;
- insurance and surety bonding;
- acquisition of surface rights and other mineral estates;
- employee wages;
- coal transportation arrangements;
- compliance with applicable laws, including environmental laws;
- negotiations and relations with unions; and
- mine closure and reclamation.

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If our lessees do not manage their operations well, their production could be reduced, which would result in lower coal royalty revenues to us.

DUE TO OUR LACK OF ASSET DIVERSIFICATION, ADVERSE DEVELOPMENTS IN THE COAL INDUSTRY COULD REDUCE OUR COAL ROYALTY REVENUES.

Our coal royalty business generates substantially all of our revenues. Due to our lack of asset diversification, an adverse development in the coal industry would have a significantly greater impact on our financial condition and results of operations than if we owned more diverse assets.

ANY DECREASE IN THE DEMAND FOR METALLURGICAL COAL COULD RESULT IN LOWER COAL PRODUCTION BY OUR LESSEES, WHICH WOULD THEREBY REDUCE OUR COAL ROYALTY REVENUES.

Our lessees produce a significant amount of the metallurgical coal that is used in both the U.S. and foreign steel industries. In 2001, approximately 12% of the coal production from our properties was metallurgical coal that was sold to the steel industry for the manufacture of coke. The steel industry has increasingly relied on electric arc furnaces or pulverized coal processes to make steel. These processes do not use coke. If this trend continues, the amount of metallurgical coal that our lessees mine could further decrease. Additionally, since the amount of steel that is produced is tied to global economic conditions, a decline in those conditions could result in the decline of steel, coke and coal production. Since metallurgical coal is priced higher than steam coal, some mines on our properties may only operate profitably if all or a portion of their production is sold as metallurgical coal. If they are unable to sell metallurgical coal, these mines may not be economically viable and may close.

WE MAY NOT BE ABLE TO EXPAND AND OUR BUSINESS WILL BE ADVERSELY AFFECTED IF WE ARE UNABLE TO REPLACE OR INCREASE OUR RESERVES OR OBTAIN OTHER MINERAL RESERVES THROUGH ACQUISITIONS.

Because our reserves decline as our lessees mine our coal, our future success and growth depend, in part, upon our ability to acquire additional coal reserves or other mineral reserves that are economically recoverable. If we are unable to replace or increase our coal reserves or acquire other mineral reserves on acceptable terms, our royalty revenues will decline as our reserves are depleted. In addition, if we are unable to successfully integrate the companies, businesses or properties we are able to acquire, our royalty revenues

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may decline and we could experience a material adverse effect on our business, financial condition or results of operations. If we acquire additional reserves, there is a possibility that any acquisition could be dilutive to earnings and reduce our ability to make distributions to unitholders. Any debt we incur to finance an acquisition may similarly affect our ability to make distributions to unitholders. Our ability to make acquisitions in the future also could be limited by restrictions under our existing or future debt agreements, competition from other mineral companies for attractive properties or the lack of suitable acquisition candidates. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Description of Credit Facility" for a discussion of restrictions on our ability to borrow funds to pay for acquisitions.

ANY CHANGE IN FUEL CONSUMPTION PATTERNS BY ELECTRIC POWER GENERATORS RESULTING IN A DECREASE IN THE USE OF COAL COULD RESULT IN LOWER COAL PRODUCTION BY OUR LESSEES, WHICH WOULD REDUCE OUR COAL ROYALTY REVENUES.

Domestic electric power generation accounts for approximately 90% of domestic coal consumption. The amount of coal consumed for domestic electric power generation is affected primarily by the overall demand for electricity, the price and availability of competing fuels for power plants such as natural gas, nuclear, fuel oil and hydroelectric power and environmental and other governmental regulations. We expect many new power plants will be built to produce electricity during peak periods of demand. Many of these new power plants will likely be fired by natural gas because of lower construction costs compared to coal-fired plants and because natural gas is a cleaner burning fuel. As discussed under "-- Regulatory and Legal Risks," the increasingly stringent requirements of the Clean Air Act may result in more electric power generators shifting from coal to natural gas-fired power plants.

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CURRENT CONDITIONS IN THE COAL INDUSTRY MAY MAKE IT DIFFICULT FOR OUR LESSEES TO EXTEND EXISTING CONTRACTS OR ENTER INTO SUPPLY CONTRACTS WITH TERMS OF ONE YEAR OR MORE, WHICH COULD ADVERSELY AFFECT THE STABILITY AND PROFITABILITY OF THEIR OPERATIONS AND ADVERSELY AFFECT OUR COAL ROYALTY REVENUES.

As electric utilities adjust to the Phase II requirements of the Clean Air Act and the possible deregulation of their industry, they are becoming increasingly less willing to enter into coal supply contracts with terms of more than one year. Instead, these utilities are purchasing higher percentages of coal on the spot market. The industry shift away from long-term supply contracts could adversely affect our lessees, and the level of our royalties, in several ways. First, fewer electric utilities will have a contractual obligation to purchase coal from our lessees, thereby increasing the risk that our lessees will not have a market for their coal production. Second, the prices our lessees receive in the spot market may be less than a contractual price an electric utility is willing to pay for a committed supply. Finally, spot market prices tend to be more volatile than contractual prices, which could result in decreased coal royalty revenues and adversely affect our ability to pay the minimum quarterly distribution in any one quarter.

In addition, price adjustment, price reopener and other similar provisions in supply contracts with terms of one year or more may reduce the protection from short-term coal price volatility traditionally provided by such contracts. Some coal supply contracts contain provisions which allow for the price at which coal is purchased to be renegotiated at periodic intervals. These price reopener provisions may automatically set a new price based on the prevailing market price or, in some instances, require the parties to agree on a new price. In some circumstances, failure of the parties to agree on a price under a price reopener provision can lead to termination of the contract. Any adjustment or

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renegotiation leading to a significantly lower contract price could result in decreased coal royalty revenues. Accordingly, supply contracts with terms of one year or more may provide only limited protection during adverse market conditions.

Some supply contracts also contain provisions which allow the customer to suspend or terminate performance under the contract upon the occurrence or continuation of specified events. These events typically include:

- the inability of our lessees to deliver the volume or qualities of coal specified;
- changes in the Clean Air Act rendering use of coal inconsistent with the customer's pollution control strategies; and
- the occurrence of events beyond the reasonable control of the affected party, including labor disputes, mechanical malfunctions and changes in government regulations.

COMPETITION WITHIN THE COAL INDUSTRY MAY ADVERSELY AFFECT THE ABILITY OF OUR LESSEES TO SELL COAL, AND EXCESS PRODUCTION CAPACITY IN THE INDUSTRY COULD PUT DOWNWARD PRESSURE ON COAL PRICES.

Our lessees compete with numerous other coal producers in various regions of the United States for domestic sales. During the mid-1970s and early 1980s, increased demand for coal attracted new investors to the coal industry, spurred the development of new mines and resulted in additional production capacity throughout the industry, all of which led to increased competition and lower coal prices. Any increases in coal prices could also encourage the development of expanded capacity by new or existing coal producers. Any resulting overcapacity could reduce coal prices and therefore reduce our coal royalty revenues.

Competition from coal with lower production costs shipped east from western coal mines has resulted in increased competition for coal sales in the Appalachian region and the Illinois Basin. This competition could result in decreased market share for our lessees operating in these regions and decreased coal royalty revenues to us.

The amount of coal exported from the United States has declined over the last few years due to adverse economic conditions in Asia and the higher relative cost of U.S. coal due to the strength of the U.S. dollar. In addition, the recently imposed tariff on steel imports could exacerbate this decline in coal

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exports. This decline could cause competition among coal producers in the United States to intensify, potentially resulting in additional downward pressure on coal prices.

LESSEES COULD SATISFY OBLIGATIONS TO THEIR CUSTOMERS WITH COAL FROM PROPERTIES OTHER THAN OURS, DEPRIVING US OF THE ABILITY TO RECEIVE AMOUNTS IN EXCESS OF MINIMUM ROYALTY PAYMENTS.

Coal supply contracts do not generally require operators to satisfy their obligations to their customers with coal mined from specific reserves. Several factors may influence a lessee's decision to supply its customers with coal mined from properties we do not own or lease, including the royalty rates under the lessee's lease with us, mining conditions, mining operations costs, cost and availability of transportation, and customer coal specifications. If a lessee

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satisfies its obligations to its customers with coal from properties we do not own or lease, production on our properties will decrease and we will receive lower coal royalty revenues.

FLUCTUATIONS IN TRANSPORTATION COSTS AND THE AVAILABILITY OR RELIABILITY OF TRANSPORTATION COULD REDUCE THE PRODUCTION OF COAL MINED FROM OUR PROPERTIES.

Transportation costs represent a significant portion of the total cost of coal for the customers of our lessees. Increases in transportation costs could make coal a less competitive source of energy or could make coal produced by some or all of our lessees less competitive than coal produced from other sources. On the other hand, significant decreases in transportation costs could result in increased competition for our lessees from coal producers in other parts of the country.

Our lessees depend upon railroads, barges, trucks and beltlines to deliver coal to their customers. Disruption of these transportation services due to weather-related problems, mechanical difficulties, strikes, lockouts, bottlenecks and other events could temporarily impair the ability of our lessees to supply coal to their customers. Our lessees' transportation providers may face difficulties in the future that may impair the ability of our lessees to supply coal to their customers, resulting in decreased coal royalty revenues to us.

OUR RESERVE ESTIMATES DEPEND ON MANY ASSUMPTIONS THAT MAY BE INACCURATE, WHICH COULD MATERIALLY ADVERSELY AFFECT THE QUANTITIES AND VALUE OF OUR RESERVES.

Our reserve estimates may vary substantially from the actual amounts of coal our lessees may be able to economically recover from our reserves. There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond our control. Estimates of coal reserves necessarily depend upon a number of variables and assumptions, any one of which may, if incorrect, result in an estimate that varies considerably from actual results. These factors and assumptions relate to:

- future coal prices, operating costs, capital expenditures, severance and excise taxes, and development and reclamation costs;
- future mining technology improvements;
- the effects of regulation by governmental agencies; and
- geologic and mining conditions, which may not be fully identified by available exploration data and may differ from our experiences in areas where our lessees currently mine.

Actual production, revenue and expenditures with respect to our reserves will likely vary from estimates, and these variations may be material. As a result, you should not place undue reliance on the coal reserve data included in this prospectus.

OUR LESSEES' WORK FORCES COULD BECOME INCREASINGLY UNIONIZED IN THE FUTURE.

Eight mines on our properties are operated by unionized employees of our lessees or their affiliates. Our lessees' employees could become increasingly unionized in the future. Some labor unions active in our lessees' areas of operations are attempting to organize the employees of some of our lessees. If some or all

of our lessees' non-unionized operations were to become unionized, it could

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adversely affect their productivity, increase costs and increase the risk of work stoppages. In addition, our lessees' operations may be adversely affected by work stoppages at unionized companies, particularly if union workers were to orchestrate boycotts against our lessees' operations. Any further unionization of our lessees' employees could adversely affect the stability of production from our reserves and reduce our coal royalty revenues.

REGULATORY AND LEGAL RISKS

OUR LESSEES ARE SUBJECT TO FEDERAL, STATE AND LOCAL LAWS AND REGULATIONS THAT MAY LIMIT THEIR ABILITY TO PRODUCE AND SELL COAL FROM OUR PROPERTIES.

Our lessees may incur substantial costs and liabilities under increasingly strict federal, state and local environmental, health and safety and endangered species laws, including regulations and governmental enforcement policies. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from our lessees' operations. Our lessees may also incur costs and liabilities resulting from claims for damages to property or injury to persons arising from their operations. If our lessees are pursued for these sanctions, costs and liabilities, their mining operations and, as a result, our coal royalty revenues, could be adversely affected.

For example, in January 2002, the West Virginia Department of Environmental Protection entered an order finding a pattern of violations relating to water quality by Marfork Coal Company, a subsidiary of Massey Energy Company, and suspending its permit for operations adjacent to the Dorothy-Sarita property for 14 days. Marfork Coal filed an appeal and obtained a stay of enforcement of this order. The Surface Mining Board heard the appeal and reduced the suspension to nine days. Marfork Coal has appealed this decision to the circuit court and a hearing has been set for November 22, 2002. The circuit court has granted a stay of the suspension that will end 60 days following the November 22 hearing. The show cause order issued to Marfork Coal could also have an impact on the longwall mining operations of another subsidiary of Massey Energy, Performance Coal, that are conducted at the Eunice property because coal mined from this part of the Eunice property is sent to the Marfork Coal preparation plant for processing. If this show cause order is not resolved on favorable terms, the permits issued to Massey Energy and its subsidiaries could be suspended or revoked and production could be decreased at mines on the Dorothy-Sarita property and at the longwall mine operated by Performance Coal at the Eunice property, reducing our coal royalty revenues.

If these permits are revoked, Massey Energy and its subsidiaries could be prohibited from obtaining additional permits. In the event of future violations at these properties or at other properties operated by these entities, the existence of those orders may increase the nature and gravity of any sanctions sought in the event that the state decides to pursue any enforcement.

Recently, water from a mine operated by Marfork Coal has leaked through the subsurface strata, resulting in a discharge of water into water from a nearby creek. This discharge is from a mine that is not on our property, but it is possible that Marfork Coal could be subject to further enforcement actions that could impact its ability to continue mining on our property, or that this could be taken into account in connection with the show cause order discussed above.

During its 2002 session, the West Virginia House of Representatives

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considered legislation that, if passed, would have significantly increased the scope of powers available to enforce the current weight restrictions on trucks carrying coal. Past sessions of the legislature have considered, but not adopted, similar legislation. The legislature and the governor appointed a task force to study the issue, and the task force issued a report recommending legislation that would raise the weight limits on the trucks, but would increase the number of required safety inspections and the amounts of registration fees and fines imposed for violations. The legislature has not yet acted on this recommendation. If increased enforcement of the existing weight restrictions continues, the costs of transporting coal in the state would increase. An increase

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in transportation costs could have an adverse effect on our lessees' ability to increase or to maintain production on our properties and a similar adverse effect on our coal royalty revenues.

Some species indigenous to our properties are protected under the Endangered Species Act. Federal and state legislation for the protection of endangered species may have the effect of prohibiting or delaying our lessees from obtaining mining permits and may include restrictions on road building and other mining activities in areas containing the affected species. Additional species on our properties may receive protected status, and currently protected species may be discovered within our properties. Either event could result in increased costs to us or our lessees.

New environmental legislation and new regulations under existing environmental laws, including regulations to protect endangered species, could further regulate or tax the coal industry and may also require our lessees to change their operations significantly or to incur increased costs which could decrease our coal royalty revenues. Please read "Business -- Regulation."

A SUBSTANTIAL PORTION OF OUR COAL HAS A HIGH SULFUR CONTENT. THIS COAL MAY BECOME MORE DIFFICULT TO SELL BECAUSE THE CLEAN AIR ACT RESTRICTS THE ABILITY OF ELECTRIC UTILITIES TO BURN HIGH SULFUR COAL.

In 1995, Phase I of the Clean Air Act required high sulfur coal plants to reduce their emissions of sulfur dioxide to 2.5 pounds or less per million Btus, and in 2000, Phase II of the Clean Air Act tightened these sulfur dioxide restrictions further to 1.2 pounds of sulfur dioxide per million Btus. These restrictions may significantly reduce the demand by electric utilities for high sulfur coal. Currently, electric utilities operating coal-fired plants can purchase credits that allow them to comply with the sulfur dioxide emission compliance requirements. Many of the power plants supplied by our lessees do not currently have scrubbers. As of December 31, 2001, 75% of our coal reserves were not compliance coal. If our lessees' customers, or their potential customers in our market areas, choose not to purchase our noncompliance coal, our lessees may be unable to find other buyers for this coal at current price and volume levels, which could materially adversely affect our revenues and our ability to make distributions to our unitholders. See "Business -- Regulation -- Clean Air Act" for a description of the Phase II requirements of the Clean Air Act.

A RECENT FEDERAL DISTRICT COURT RULING COULD PRECLUDE OUR LESSEES FROM OBTAINING CLEAN WATER ACT PERMITS REQUIRED FOR SOME OF THEIR FUTURE OPERATIONS AND COULD ALSO RESULT IN THE REVOCATION OF EXISTING PERMITS.

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On May 8, 2002, the United States District Court for the Southern District of West Virginia issued an order in *Kentuckians for the Commonwealth v. Rivenburgh* enjoining the Huntington, West Virginia office of the U.S. Army Corps of Engineers from issuing permits under Section 404 of the Clean Water Act for the construction of valley fills for the disposal of overburden from mountaintop mining operations solely for the purpose of waste disposal. These valleys typically contain streams that, under the Clean Water Act, are considered navigable waters of the United States. The court held that the filling of these waters solely for waste disposal is a violation of the Clean Water Act. The effect of this injunction, if it is not overturned by an appellate court or subsequent legislation, will be to make mountaintop mining uneconomical in those areas subject to the injunction. We would be materially affected by this injunction because a substantial number of mountaintop mining valley fill permits required to be obtained by our lessees would need to be issued by the Huntington, West Virginia office of the U.S. Army Corps of Engineers.

The court's injunction also prohibits the issuance of permits authorizing fill activities associated with types of mining activities other than mountaintop mining where the primary purpose or use of those fill activities is the disposal of waste. Such activities might include those associated with slurry impoundments and coal refuse disposal areas. If the injunction is not overturned by an appellate court or subsequent legislation, our lessees may not be able to obtain permits in many cases to use these common fill activities, which could render these operations uneconomical. Any consequent reduction or cessation of their operations would reduce mining on our properties and our royalty revenue.

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Following the issuance of the court's May 8, 2002 order, the plaintiff in the *Kentuckians* case filed a motion for further injunctive relief requesting that the court require the Huntington, West Virginia office of the U.S. Army Corps of Engineers to revoke the Section 404 valley fill permit identified in the plaintiff's complaint. In addition, various defendants and intervenors filed motions seeking a clarification of the court's order, a stay pending appeal, and a dismissal for failure to join a necessary party. In response to the defendants' motion for clarification, the court decided that its injunction applies to any fill activity that does not have a "constructive primary purpose," citing as an example fills used solely for the disposal of waste. The court noted that such fills could include not only valley fills, but also other mining activities such as refuse impoundments, fills from standard contour or surface mines, or fills related to mine sites with "approximate original contour" waivers. The court noted, however, that determining whether a particular fill has a "constructive primary purpose" is up to the technical expertise of the U.S. Army Corps of Engineers. The court denied both the defendants' motion for stay pending appeal and their motion for dismissal. Both the U.S. Army Corps of Engineers and the industry parties that have intervened in the lawsuit have appealed this ruling to the Fourth Circuit Court of Appeals.

We are unable to predict the ultimate outcome of this decision or the impact this decision may have on our lessees' operations and, therefore, our results of operations. The ruling could be upheld or reversed on appeal, settled by the parties or overturned by legislation, and this process could take several years to complete. If the decision is ultimately upheld in whole or in part on appeal, we cannot predict how it would be interpreted or implemented by the applicable governmental agencies or courts. Future litigation could result from ambiguities in the current order or ambiguities contained in future orders or

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decisions. In addition, although this ruling applies only to the Huntington, West Virginia office of the U.S. Army Corps of Engineers, future litigation, including appellate review of this case, could ultimately broaden its applicability to other offices of the U.S. Army Corps of Engineers, including offices which have issued and may issue in the future permits to our lessees for mining on our properties. We are also uncertain as to whether this ruling would impact only our lessees' future permits, or whether it would also apply to renewals of permits or to existing permits.

If lawsuits challenging our lessees' permits were successful, our lessees would be required to suspend or cease their surface mining on our properties. If the decision is not overturned on appeal or by new legislation, we would suffer a material decrease in our royalty revenue. Please read "Business -- Regulation -- Clean Water Act."

THE CLEAN AIR ACT AFFECTS THE END-USERS OF COAL AND COULD SIGNIFICANTLY AFFECT THE DEMAND FOR OUR COAL AND REDUCE OUR COAL ROYALTY REVENUES.

The Clean Air Act and corresponding state and local laws extensively regulate the amount of sulfur dioxide, particulate matter, nitrogen oxides and other compounds emitted from industrial boilers and power plants, including those that use our coal. These regulations constitute a significant burden on coal customers and stricter regulation could adversely affect the demand for and price of our coal, especially higher sulfur coal, resulting in lower coal royalty revenues.

In July 1997, the U.S. Environmental Protection Agency adopted more stringent ambient air quality standards for particulate matter and ozone. Particulate matter includes small particles that are emitted during the coal combustion process. In a February 2001 decision, the U.S. Supreme Court largely upheld the EPA's position, although it remanded the EPA's ozone implementation policy for further consideration. On remand, the Court of Appeals for the D.C. Circuit affirmed the EPA's adoption of these more stringent ambient air quality standards. As a result of the finalization of these standards, states that have not attained these standards will have to revise their State Implementation Plans to include provisions for the control of ozone precursors and/or particulate matter. Revised State Implementation Plans could require electric power generators to further reduce nitrogen oxide and particulate matter emissions. The potential need to achieve such emissions reductions could result in reduced coal consumption by electric power generators. Thus, future regulations regarding ozone, particulate matter and other by-products of coal combustion could restrict the market for coal and the development of new mines by our lessees. This

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in turn may result in decreased production by our lessees and a corresponding decrease in our coal royalty revenues.

Furthermore, in October 1998, the EPA finalized a rule that will require 19 states in the Eastern United States that have ambient air quality problems to make substantial reductions in nitrogen oxide emissions by the year 2004. To achieve these reductions, many power plants will be required to install additional control measures. The installation of these measures will make it more costly to operate coal-fired power plants and, depending on the requirements of individual state implementation plans, could make coal a less attractive fuel.

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Additionally, the U.S. Department of Justice, on behalf of the EPA, has filed lawsuits against several investor-owned electric utilities and brought an administrative action against one government-owned electric utility for alleged violations of the Clean Air Act. The EPA claims that the power plants operated by these utilities have failed to obtain permits required under the Clean Air Act for facility modifications. Our lessees supply coal to some of the affected utilities, and it is possible that other of our lessees' customers will be sued. These lawsuits could require the affected utilities to pay penalties and install pollution control equipment or undertake other emission reduction measures, which could adversely affect their demand for coal. Any outcome that adversely affects our lessees' customers and their demand for coal could adversely affect our coal royalty revenues.

Other proposed initiatives may have an effect upon our lessees' coal operations. One such proposal is the Bush Administration's recently announced Clear Skies Initiative. As proposed, this initiative is designed to reduce emissions of sulfur dioxide, nitrogen oxides and mercury from power plants. Other so-called multi-pollutant bills, which could regulate additional air pollutants, have been proposed in Congress. While the details of all of these proposed initiatives vary, there appears to be a movement towards increased regulation of a number of air pollutants. Were such initiatives enacted into law, power plants could choose to shift away from coal as a fuel source to meet these requirements.

The Clean Air Act also imposes standards on sources of hazardous air pollutants. Although these standards have not yet been extended to coal mining operations, the EPA recently announced that it will regulate hazardous air pollutants from coal-fired power plants. Under the Clean Air Act, coal-fired power plants will be required to control hazardous air pollution emissions by approximately 2009. These controls are likely to require significant new investments in controls by power plant owners. Like other environmental regulations, these standards and future standards could result in a decreased demand for coal. Please read "Business -- Regulation -- Clean Air Act."

WE MAY BECOME LIABLE UNDER FEDERAL AND STATE MINING STATUTES IF OUR LESSEES ARE UNABLE TO PAY MINING RECLAMATION COSTS.

The Surface Mining Control and Reclamation Act of 1977, or SMCRA, and state statutes adopted pursuant to SMCRA impose various permitting and operational requirements on mine operators. In addition, SMCRA assigns to operators the responsibility of restoring the land to its approximate original contour or compensating the surface owner for types of damages occurring as a result of mining operations, and requires mine operators to post performance bonds to ensure compliance with any reclamation obligations. Regulatory authorities may attempt to assign the liabilities of our lessees to us if any of our lessees are not financially capable of fulfilling those obligations. Please read "Business -- Regulation."

A RECENT FEDERAL DISTRICT COURT DECISION COULD LIMIT OUR LESSEES' ABILITY TO CONDUCT UNDERGROUND MINING OPERATIONS.

On March 29, 2002, the U.S. District Court for the District of Columbia issued a ruling that could restrict underground mining activities conducted in the vicinity of public roads, within a variety of federally protected lands, within national forests and within a certain proximity of occupied dwellings. The lawsuit, Citizens Coal Council v. Norton, was filed in February 2000 to challenge regulations issued by the Department of Interior providing, among other things, that subsidence and underground activities that may lead to subsidence are not surface mining activities within the meaning of SMCRA. SMCRA generally

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contains restrictions and certain prohibitions on the locations where surface mining activities can be conducted. The District Court entered summary judgment upon the plaintiffs' claims that the Secretary of the Interior's determination violated SMCRA. By order dated April 9, 2002, the court remanded the regulations to the Secretary of the Interior for reconsideration.

None of the deep mining activities undertaken on our properties are within the federally protected lands or national forests where SMCRA restricts surface mining, or within any real proximity to occupied dwellings. However, this case poses a potential restriction on underground mining within 100 feet of a public road. If these SMCRA restrictions ultimately apply to underground mining, considerable uncertainty would exist about the nature and extent of this restriction.

The significance of this decision for the coal mining industry remains unclear because this ruling is subject to appellate review. The Department of Interior and the National Mining Association, a trade group that intervened in this action, appealed the ruling and sought a stay of the order pending appeal to the U.S. Court of Appeals for the District of Columbia Circuit and the stay was granted. If the District Court's decision is not overturned, or if some legislative solution is not enacted, this ruling could have a material adverse affect on all coal mine operations that utilize underground mining techniques, including those of our lessees. While it may still be possible to obtain permits for underground mining operations in these areas, the time and expense of that permitting process are likely to increase significantly.

RESTRUCTURING OF THE ELECTRIC UTILITY INDUSTRY COULD LEAD TO REDUCED COAL PRICES.

A number of states and the District of Columbia have passed legislation to allow retail price competition in the electric utility industry. If ultimately implemented at both the state and federal levels, restructuring of the electric utility industry is expected to compel electric utilities to be more aggressive in developing and defending market share, to be more focused on their pricing and cost structures and to be more flexible in reacting to changes in the market. Congress is currently contemplating legislation that would further enhance competition in the electric industry. We believe that a fully competitive electricity market may put downward pressure on fuel prices, including coal, because electric utilities will be competing with other suppliers and will no longer necessarily be able to pass increased fuel costs on to their customers. In addition, some of these initiatives may or do mandate the increased use of alternative or renewable fuels as alternatives to burning fossil fuels.

WE COULD BECOME LIABLE UNDER FEDERAL AND STATE SUPERFUND AND WASTE MANAGEMENT STATUTES.

The Comprehensive Environmental Response, Compensation and Liability Act, known as CERCLA or "Superfund," and similar state laws create liabilities for the investigation and remediation of releases and threatened releases of hazardous substances to the environment and damages to natural resources. As landowners, we are potentially subject to liability for these investigation and remediation obligations. Please read "Business -- Regulation."

RISKS RELATED TO OUR PARTNERSHIP STRUCTURE

THE WPP GROUP AND ARCH COAL MAY ENGAGE IN SUBSTANTIAL COMPETITION WITH US.

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We rely on the employees of our general partner's affiliates, including the WPP Group, to conduct our business. Although the WPP Group and Arch Coal have agreed in the omnibus agreement to some restrictions on their ability to compete with us in the leasing of coal reserves, these restrictions are subject to numerous exceptions that will enable the WPP Group and Arch Coal to engage in substantial competition with us should they choose to do so. The restrictions on Arch Coal's ability to compete with us are materially less burdensome than the restrictions on the WPP Group. The partnership agreement provides that engaging in competitive activities by Arch Coal and the WPP Group that are not prohibited by the omnibus agreement will not constitute a breach of their fiduciary duties to us or the unitholders. To the extent that Arch Coal or the WPP Group competes with us, our growth prospects may be reduced and our results of operations and financial condition may be materially adversely affected. Furthermore, because they control us, the WPP Group and Arch Coal may have information regarding our operations

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and business strategies that may give them an advantage in competing with us that a third-party competitor would not have.

The exceptions to the noncompete obligations of the WPP Group and Arch Coal include the following:

- The WPP Group or Arch Coal may lease their owned coal reserves within the United States to affiliates. For example, Arch Coal or an Arch Coal subsidiary may acquire new coal reserves and lease them directly to an operating subsidiary of Arch Coal and collect royalties on the lease without offering us the opportunity to acquire these reserves.
- The WPP Group or Arch Coal may compete with us as long as the fair market value of the assets of any competing business are \$10 million or less; provided, that with respect to the WPP Group, the total value of all competing businesses do not exceed \$75 million. In addition, with respect to the WPP Group, any coal reserves that are owned and unleased at the time of the closing of the offering that are subsequently leased to third parties will not be considered in calculating the \$75 million limitation.
- In certain circumstances, the WPP Group and Arch Coal will be required to offer a competing business to us for purchase, but if they make a good faith decision in their sole discretion not to accept our offer, they will be able to continue to own and operate the business in competition with us. There is no provision in the omnibus agreement requiring the WPP Group or Arch Coal to sell the business to us at a fair market value determined by a third party investment banking firm or appraiser.
- Arch Coal may buy an interest in a competing business that is a general partner interest or a managing member interest in a limited liability company provided it divests itself of such interest within six months of acquisition or it offers us the opportunity to buy its interest. If, however, Arch Coal is unable to divest its interest in the competing business within six months of acquisition despite a good faith, commercially reasonable attempt to do so, and Arch has not received an extension from our conflicts committee or has not offered us the opportunity to buy its competing interest, then Arch Coal may opt to either (1) have its designated directors immediately resign from the board of directors of our general partner, in which case Arch Coal may continue to own and operate the competing business but will continue to

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relinquish its rights to designate directors of our general partner until such time as it divests the competing business, or (2) hire an independent investment banking firm to determine the fair market value of the competing business. If Arch Coal elects to obtain an independent valuation of its competing business, then:

- if Arch Coal and our general partner (with the concurrence of the conflicts committee) agree upon the price of the competing business, our partnership will purchase the competing business;
- if Arch Coal seeks to sell the competing business to our partnership at the price determined by the investment banking firm and our general partner (with the concurrence of the conflicts committee) declines to purchase the competing business, Arch Coal will be free to continue to own and operate the competing business;
- if Arch Coal does not wish to sell the competing business to our partnership at the price determined by the investment banking firm and our general partner (with the concurrence of the conflicts committee) seeks to purchase the competing business at such price, then Arch Coal's designated directors must immediately resign from the board of directors of our general partner, in which case Arch Coal may continue to own and operate the competing business. Arch Coal will continue to relinquish its rights to designate directors to our general partner until it divests the competing business.
- There is no restriction on the ability of the WPP Group and Arch Coal to compete with us in the ownership and operation of other businesses, including the leasing of other mineral properties such

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as oil and gas and iron ore. It is our strategy to diversify into the acquisition of mineral properties in addition to coal properties.

- There is no restriction on the ability of the WPP Group and Arch Coal to own a noncontrolling equity interest in a competing business, including an economic stake that is greater than their stake in us.

If the WPP Group or Arch Coal, as applicable, ceases to participate in the control of our general partner, then it will no longer be bound by the noncompetition provisions of the omnibus agreement.

Please see "Certain Relationships and Related Transactions -- Omnibus Agreement" for a description of the omnibus agreement.

THE WPP GROUP, ARCH COAL AND THEIR AFFILIATES HAVE CONFLICTS OF INTEREST AND LIMITED FIDUCIARY RESPONSIBILITIES, WHICH MAY PERMIT THEM TO FAVOR THEIR OWN INTERESTS TO YOUR DETRIMENT.

Following the offering, the WPP Group, Arch Coal and their affiliates will own an aggregate of 81.3% of our common