

ALLIANCE RESOURCE PARTNERS LP

Form 10-Q

November 07, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**x**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

OR

**o**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 0-26823

# ALLIANCE RESOURCE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware

73-1564280

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

1717 South Boulder Avenue, Suite 400, Tulsa, Oklahoma 74119

(Address of principal executive offices and zip code)

(918) 295-7600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if smaller reporting company)

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

As of November 7, 2013, 36,963,054 common units are outstanding.

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Table of Contents**PART I****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except unit data)

(Unaudited)

<b>ASSETS</b>	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 18,871	\$ 28,283
Trade receivables	169,916	172,724
Other receivables	1,121	1,019
Due from affiliates	740	658
Inventories	69,331	46,660
Advance royalties	11,280	11,492
Prepaid expenses and other assets	3,680	20,476
Total current assets	274,939	281,312
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Property, plant and equipment, at cost	2,576,521	2,361,863
Less accumulated depreciation, depletion and amortization	(990,133)	(832,293)
Total property, plant and equipment, net	1,586,388	1,529,570
<b>OTHER ASSETS:</b>		
Advance royalties	20,881	23,267
Equity investments in affiliates	124,345	88,513
Due from affiliate	11,150	3,084
Other long-term assets	28,945	30,226
Total other assets	185,321	145,090
<b>TOTAL ASSETS</b>	<b>\$ 2,046,648</b>	<b>\$ 1,955,972</b>
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 107,132	\$ 100,174
Due to affiliates	393	327
Accrued taxes other than income taxes	22,615	19,998
Accrued payroll and related expenses	51,603	38,501
Accrued interest	6,185	1,435
Workers compensation and pneumoconiosis benefits	9,478	9,320
Current capital lease obligations	1,214	1,000

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Other current liabilities	21,763	19,572
Current maturities, long-term debt (Note 7)	80,500	18,000
Total current liabilities	300,883	208,327

**LONG-TERM LIABILITIES:**

Long-term debt, excluding current maturities	687,500	773,000
Pneumoconiosis benefits	63,921	59,931
Accrued pension benefit	31,202	31,078
Workers' compensation	70,733	68,786
Asset retirement obligations	76,517	81,644
Long-term capital lease obligations	17,513	18,613
Other liabilities	6,831	9,147
Total long-term liabilities	954,217	1,042,199
Total liabilities	1,255,100	1,250,526

**COMMITMENTS AND CONTINGENCIES**

**PARTNERS' CAPITAL:**

Limited Partners - Common Unitholders 36,963,054 and 36,874,949 units outstanding, respectively	1,100,541	1,020,823
General Partners' deficit	(268,907)	(273,113)
Accumulated other comprehensive loss	(40,086)	(42,264)
Total Partners' Capital	791,548	705,446
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>\$ 2,046,648</b>	<b>\$ 1,955,972</b>

See notes to condensed consolidated financial statements.

Table of Contents**ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except unit and per unit data)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>SALES AND OPERATING REVENUES:</b>				
Coal sales	\$ 518,447	\$ 499,003	\$ 1,594,530	\$ 1,441,107
Transportation revenues	11,554	5,625	23,459	17,651
Other sales and operating revenues	7,228	6,813	20,866	26,133
Total revenues	537,229	511,441	1,638,855	1,484,891
<b>EXPENSES:</b>				
Operating expenses (excluding depreciation, depletion and amortization)	346,045	338,644	1,042,057	946,806
Transportation expenses	11,554	5,625	23,459	17,651
Outside coal purchases	636	4,424	2,028	34,759
General and administrative	14,893	13,598	46,736	43,939
Depreciation, depletion and amortization	66,099	59,781	198,688	154,923
Asset impairment charge	-	19,031	-	19,031
Total operating expenses	439,227	441,103	1,312,968	1,217,109
<b>INCOME FROM OPERATIONS</b>	<b>98,002</b>	<b>70,338</b>	<b>325,887</b>	<b>267,782</b>
Interest expense (net of interest capitalized for the three and nine months ended September 30, 2013 and 2012 of \$2,816, \$1,701, \$8,220 and \$6,433, respectively)	(6,168)	(7,446)	(19,004)	(21,626)
Interest income	252	94	564	238
Equity in loss of affiliates, net	(5,990)	(2,832)	(15,556)	(11,040)
Other income	372	254	999	2,853
<b>INCOME BEFORE INCOME TAXES</b>	<b>86,468</b>	<b>60,408</b>	<b>292,890</b>	<b>238,207</b>
<b>INCOME TAX BENEFIT</b>	<b>(718)</b>	<b>(102)</b>	<b>(1,307)</b>	<b>(726)</b>
<b>NET INCOME</b>	<b>\$ 87,186</b>	<b>\$ 60,510</b>	<b>\$ 294,197</b>	<b>\$ 238,933</b>
<b>GENERAL PARTNERS INTEREST IN NET INCOME</b>	<b>\$ 31,052</b>	<b>\$ 27,263</b>	<b>\$ 91,414</b>	<b>\$ 80,015</b>
<b>LIMITED PARTNERS INTEREST IN NET INCOME</b>	<b>\$ 56,134</b>	<b>\$ 33,247</b>	<b>\$ 202,783</b>	<b>\$ 158,918</b>
<b>BASIC AND DILUTED NET INCOME PER LIMITED PARTNER UNIT (Note 9)</b>	<b>\$ 1.50</b>	<b>\$ 0.89</b>	<b>\$ 5.41</b>	<b>\$ 4.25</b>
<b>DISTRIBUTIONS PAID PER LIMITED PARTNER UNIT</b>	<b>\$ 1.1525</b>	<b>\$ 1.0625</b>	<b>\$ 3.39</b>	<b>\$ 3.0775</b>
<b>WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING BASIC AND DILUTED</b>	<b>36,963,054</b>	<b>36,874,949</b>	<b>36,948,531</b>	<b>36,859,018</b>

See notes to condensed consolidated financial statements.





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**ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>NET INCOME</b>	\$ 87,186	\$ 60,510	\$ 294,197	\$ 238,933
<b>OTHER COMPREHENSIVE INCOME:</b>				
Defined benefit pension plan:				
Amortization of actuarial loss (1)	557	458	1,675	1,373
Total defined benefit pension plan adjustments	557	458	1,675	1,373
Pneumoconiosis benefits:				
Amortization of actuarial loss (1)	168	194	503	582
Total pneumoconiosis benefits adjustments	168	194	503	582
<b>OTHER COMPREHENSIVE INCOME</b>	725	652	2,178	1,955
<b>TOTAL COMPREHENSIVE INCOME</b>	\$ 87,911	\$ 61,162	\$ 296,375	\$ 240,888

(1) Amortization of actuarial loss is included in the computation of net periodic benefit cost (see Notes 10 and 12 for additional details).

See notes to condensed consolidated financial statements.

Table of Contents**ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	\$ 550,385	\$ 431,628
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property, plant and equipment:		
Capital expenditures	(242,653)	(332,353)
Changes in accounts payable and accrued liabilities	(354)	(4,024)
Proceeds from sale of property, plant and equipment	124	114
Purchases of equity investments in affiliate	(47,500)	(43,100)
Payment for acquisition of business	-	(100,000)
Payments to affiliate for acquisition and development of coal reserves	(21,318)	(34,601)
Advances/loans to affiliate	(7,500)	(2,229)
Payments from affiliate	-	4,229
Other	-	546
Net cash used in investing activities	(319,201)	(511,418)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under term loan	-	250,000
Borrowings under revolving credit facilities	211,000	150,000
Payments under revolving credit facilities	(216,000)	(75,000)
Payment on term loan	-	(300,000)
Payment on long-term debt	(18,000)	(18,000)
Payments on capital lease obligations	(886)	(673)
Payment of debt issuance costs	-	(4,272)
Net settlement of employee withholding taxes on vesting of Long-Term Incentive Plan	(3,015)	(3,734)
Cash contributions by General Partners	114	150
Distributions paid to Partners	(213,809)	(190,148)
Net cash used in financing activities	(240,596)	(191,677)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(9,412)	(271,467)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	28,283	273,528
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 18,871	\$ 2,061
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 21,638	\$ 22,166
<b>NON-CASH INVESTING AND FINANCING ACTIVITY:</b>		
Accounts payable for purchase of property, plant and equipment	\$ 20,618	\$ 20,955
Market value of common units issued under Long-Term Incentive and Directors Deferred Compensation Plans before minimum statutory tax withholding requirements	\$ 8,583	\$ 11,070
Acquisition of business:		
Fair value of assets assumed	\$ -	\$ 126,639
Cash paid	-	(100,000)

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Fair value of liabilities assumed	\$	-	\$	26,639
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See notes to condensed consolidated financial statements.

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**ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. ORGANIZATION AND PRESENTATION**

*Significant Relationships Referenced in Notes to Condensed Consolidated Financial Statements*

- References to we, us, our or ARLP Partnership mean the business and operations of Alliance Resource Partners, L.P., the parent company, as well as its consolidated subsidiaries.
- References to ARLP mean Alliance Resource Partners, L.P., individually as the parent company, and not on a consolidated basis.
- References to MGP mean Alliance Resource Management GP, LLC, the managing general partner of Alliance Resource Partners, L.P., also referred to as our managing general partner.
- References to SGP mean Alliance Resource GP, LLC, the special general partner of Alliance Resource Partners, L.P., also referred to as our special general partner.
- References to Intermediate Partnership mean Alliance Resource Operating Partners, L.P., the intermediate partnership of Alliance Resource Partners, L.P., also referred to as our intermediate partnership.
- References to Alliance Coal mean Alliance Coal, LLC, the holding company for the operations of Alliance Resource Operating Partners, L.P., also referred to as our operating subsidiary.
- References to AHGP mean Alliance Holdings GP, L.P., individually as the parent company, and not on a consolidated basis.
- References to AGP mean Alliance GP, LLC, the general partner of Alliance Holdings GP, L.P.

*Organization*

ARLP is a Delaware limited partnership listed on the NASDAQ Global Select Market under the ticker symbol ARLP. ARLP was formed in May 1999 to acquire, upon completion of ARLP's initial public offering on August 19, 1999, certain coal production and marketing assets of Alliance Resource Holdings, Inc., a Delaware corporation ( ARH ), consisting of substantially all of ARH's operating subsidiaries, but excluding ARH. ARH is owned by Joseph W. Craft III, the President and Chief Executive Officer and a Director of our managing general partner, and Kathleen S. Craft. SGP, a Delaware limited liability company, is owned by ARH and holds a 0.01% general partner interest in each of ARLP and the Intermediate Partnership.

We are managed by our managing general partner, MGP, a Delaware limited liability company, which holds a 0.99% and a 1.0001% managing general partner interest in ARLP and the Intermediate Partnership, respectively, and a 0.001% managing member interest in Alliance Coal. AHGP is a Delaware limited partnership that was formed to become the owner and controlling member of MGP. AHGP completed its initial public offering on May 15, 2006. AHGP owns directly and indirectly 100% of the members' interest of MGP, the incentive distribution rights ( IDR ) in ARLP and 15,544,169 common units of ARLP.

*Basis of Presentation*

The accompanying condensed consolidated financial statements include the accounts and operations of the ARLP Partnership and present our financial position as of September 30, 2013 and December 31, 2012, the results of our operations and comprehensive income for the three and nine months ended September 30, 2013 and 2012 and the cash flows for the nine months ended September 30, 2013 and 2012. All of our intercompany transactions and accounts have been eliminated.

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These condensed consolidated financial statements and notes are unaudited. However, in the opinion of management, these financial statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results for the periods presented. Results for interim periods are not necessarily indicative of results for a full year.

These condensed consolidated financial statements and notes are prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

*Use of Estimates*

The preparation of the ARLP Partnership's condensed consolidated financial statements in conformity with generally accepted accounting principles (GAAP) of the United States (U.S.) requires management to make estimates and assumptions that affect the reported amounts and disclosures in our condensed consolidated financial statements. Actual results could differ from those estimates.

**2. NEW ACCOUNTING STANDARDS**

*New Accounting Standards Issued and Adopted*

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (AOCI) by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, certain significant amounts reclassified out of AOCI by the respective line items of net income. ASU 2013-02 does not change the items that must be reported in AOCI. ASU 2013-02 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of ASU 2013-02 did not have a material impact on our condensed consolidated financial statements.

**3. CONTINGENCIES**

Various lawsuits, claims and regulatory proceedings incidental to our business are pending against the ARLP Partnership. We record an accrual for a potential loss related to these matters when, in management's opinion, such loss is probable and reasonably estimable. Based on known facts and circumstances, we believe the ultimate outcome of these outstanding lawsuits, claims and regulatory proceedings will not have a material adverse effect on our financial condition, results of operations or liquidity. However, if the results of these matters were different from management's current opinion and in amounts greater than our accruals, then they could have a material adverse effect.

**4. ACQUISITIONS**

*Asset Acquisition*

In June 2013, our subsidiary, Alliance Resource Properties, LLC ( Alliance Resource Properties ), acquired the rights to approximately 11.6 million tons of proven and probable medium-sulfur coal reserves, and an additional 5.9 million resource tons, in Grant and Tucker County, West Virginia from Laurel Run Mining Company, a subsidiary of Consol Energy, Inc. The purchase price of \$25.2 million was allocated to owned and leased coal rights and was financed using existing cash on hand. As a result of the coal reserve purchase, we reclassified certain tons of medium-sulfur, non-reserve coal deposits as reserves, which together with the reserves purchased above, extended the expected life of Mettiki Coal (WV), LLC's Mountain View mine.



Table of Contents*Green River Collieries, LLC*

On April 2, 2012, we acquired substantially all of Green River Collieries, LLC's (Green River) assets related to its coal mining business and operations located in Webster and Hopkins Counties, Kentucky for consideration of \$100.0 million. The transaction included the Onton No. 9 mining complex (Onton mine), which included the mine, a dock, tugboat, and a lease for the preparation plant, and an estimated 40.0 million tons of coal reserves in the West Kentucky No. 9 coal seam. The Green River acquisition was consistent with our general business strategy and complemented our current coal mining operations.

The following unaudited pro forma information for the nine months ended September 30, 2012 for the ARLP Partnership has been prepared for illustrative purposes as if the business combination occurred on January 1, 2011, the year prior to the acquisition date. The unaudited pro forma results have been prepared based upon Green River's historical results with respect to the business acquired and estimates of the effects of the transactions that we believe are reasonable and supportable. The results are not necessarily reflective of the consolidated results of operations had the acquisition actually occurred on January 1, 2011, nor are they indicative of future operating results.

**Nine Months Ended  
September 30, 2012**  
(in thousands)

**Total revenues**

As reported	\$	1,484,891
Pro forma	\$	1,512,234

**Net income**

As reported	\$	238,933
Pro forma	\$	240,214

The pro forma net income includes adjustments to depreciation, depletion and amortization to reflect the new basis in property, plant and equipment and intangible assets acquired, elimination of income tax expense, and the elimination of interest expense of Green River as its debt was paid off in conjunction with the acquisition.

Synergies from the acquisition are not reflected in the pro forma results.

**5. ASSET IMPAIRMENT CHARGE**

Pontiki Coal, LLC's (Pontiki) mining complex in Martin County, Kentucky was idled from August 29, 2012 to November 25, 2012. The Mine Safety and Health Administration (MSHA) ordered the closure of the coal preparation plant and associated surface facilities at the Pontiki mining complex following the failure on August 23, 2012 of a belt line between two clean coal stacking tubes. MSHA required a comprehensive structural inspection of all the surface facilities by an independent bridge engineering firm before the surface facilities could be reopened. Although the Pontiki mining complex resumed operations to fulfill contractual obligations for the delivery of coal in 2013 under existing coal sales agreements, significant uncertainty remained regarding market demand and pricing for coal from Pontiki beyond 2013. This uncertainty along with the likelihood of future cost increases arising from stringent regulatory oversight placed the long-term viability of Pontiki

at significant risk.

As a result of the above events, uncertainty regarding the future operations of the mine and the required additional repair costs, and our assessment of related risks, we concluded that indicators of impairment were present and the carrying value of the asset group representing the Pontiki mining complex ( Pontiki Assets ) was not fully recoverable. We estimated the fair value of the Pontiki Assets

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and determined it was exceeded by the carrying value and accordingly, we recorded an asset impairment charge of \$19.0 million in our Central Appalachian segment during the quarter ended September 30, 2012 to reduce the carrying value of the Pontiki Assets to their estimated fair value of \$16.1 million. The fair value of the Pontiki Assets was determined using the market and cost valuation techniques and represents a Level 3 fair value measurement. The fair value analysis was based on the marketability of coal properties in the current market environment, discounted projected future cash flows, and estimated fair value of assets that could be sold or used at other operations. As these estimates incorporate certain assumptions, including replacement cost of equipment and marketability of coal reserves in the Central Appalachian region, and it is possible that the estimates may change in the future resulting in the need to adjust our determination of fair value. The asset impairment established a new cost basis on which depreciation, depletion and amortization is calculated for the Pontiki Assets.

As noted above, although the Pontiki mining complex resumed operations, significant uncertainty remained regarding market demand and pricing for coal from Pontiki beyond 2013. On September 27, 2013, we issued Worker Adjustment and Retraining Notification (WARN) Act notices to all employees at Pontiki's mining complex. We plan to continue operations at the Pontiki mining complex until late November 2013 to fulfill commitments under existing sales contracts at which time the mine is expected to cease production. No additional impairment was required related to the expected closure of the mine as the depreciable lives of the Pontiki Assets were adjusted in 2012 and throughout 2013 as management evaluated the future operations at Pontiki.

## 6. FAIR VALUE MEASUREMENTS

We apply the provisions of FASB ASC 820, *Fair Value Measurement*, which, among other things, defines fair value, requires disclosures about assets and liabilities carried at fair value and establishes a hierarchical disclosure framework based upon the quality of inputs used to measure fair value.

Valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our own market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 Quoted prices for identical instruments in active markets.
- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 Instruments whose significant value drivers are unobservable.

The carrying amounts for cash equivalents, accounts receivable, accounts payable, due from affiliates and due to affiliates approximate fair value because of the short maturity of those instruments. At September 30, 2013 and December 31, 2012, the estimated fair value of our long-term debt, including current maturities, was approximately \$787.3 million and \$834.3 million, respectively, based on interest rates that we believe are currently available to us for issuance of debt with similar terms and remaining maturities (Note 7). The fair value of debt, which is based upon interest rates for similar instruments in active markets, is classified as a Level 2 measurement under the fair value hierarchy.

Table of Contents**7. LONG-TERM DEBT**

Long-term debt consists of the following (in thousands):

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Revolving credit facility	\$ 100,000	\$ 155,000
\$50 million facility	50,000	-
Senior notes	18,000	36,000
Series A senior notes	205,000	205,000
Series B senior notes	145,000	145,000
Term loan	250,000	250,000
	768,000	791,000
Less current maturities	(80,500)	(18,000)
Total long-term debt	\$ 687,500	\$ 773,000

On September 11, 2013, our Intermediate Partnership entered into a credit agreement for a \$50.0 million revolving credit facility ( Facility ) to be used, as appropriate, for short-term working capital requirements. The counterparty to the Facility is KC-LendCo, LLC, which is controlled by an officer of ARH via his role as independent trustee of irrevocable trusts established by our President and Chief Executive Officer. Borrowings under the Facility bear interest at the London Interbank Offered Rate ( LIBOR ) plus 0.80%, with interest payable quarterly. At September 30, 2013, the LIBOR with applicable margin was 0.98% on borrowings outstanding. The Facility is included in the current maturities, long-term debt line item on our condensed consolidated balance sheet. The lender and the Intermediate Partnership have the option to terminate the Facility at any time and the Facility was terminated on October 29, 2013, with all amounts outstanding, plus interest, paid in full.

Our Intermediate Partnership also has \$18.0 million in senior notes ( Senior Notes ), \$205.0 million in Series A and \$145.0 million in Series B senior notes (collectively, the 2008 Senior Notes ), a \$700.0 million revolving credit facility ( Revolving Credit Facility ) and a \$250.0 million term loan (collectively, with the Senior Notes, the 2008 Senior Notes and the Revolving Credit Facility, the ARLP Debt Arrangements ), which are guaranteed by all of the material direct and indirect subsidiaries of our Intermediate Partnership. The ARLP Debt Arrangements contain various covenants affecting our Intermediate Partnership and its subsidiaries restricting, among other things, the amount of distributions by our Intermediate Partnership, the incurrence of additional indebtedness and liens, the sale of assets, the making of investments, the entry into mergers and consolidations and the entry into transactions with affiliates, in each case subject to various exceptions. The ARLP Debt Arrangements also require the Intermediate Partnership to remain in control of a certain amount of mineable coal reserves relative to its annual production. In addition, the ARLP Debt Arrangements require our Intermediate Partnership to maintain (a) debt to cash flow ratio of not more than 3.0 to 1.0 and (b) cash flow to interest expense ratio of not less than 3.0 to 1.0, in each case, during the four most recently ended fiscal quarters. The debt to cash flow ratio and cash flow to interest expense ratio were 1.12 to 1.0 and 19.4 to 1.0, respectively, for the trailing twelve months ended September 30, 2013. We were in compliance with the covenants of the ARLP Debt Arrangements as of September 30, 2013.

At September 30, 2013, we had borrowings of \$150.0 million and \$23.5 million of letters of credit outstanding with \$576.5 million available for borrowing under the Revolving Credit Facility and the Facility. We utilize the Revolving Credit Facility, as appropriate, for working capital requirements, anticipated capital expenditures and investments in affiliates, scheduled debt payments and distribution payments. We incur an annual commitment fee of 0.25% on the undrawn portion of the Revolving Credit Facility.



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**8. WHITE OAK TRANSACTIONS**

On September 22, 2011 (the Transaction Date), we entered into a series of transactions with White Oak Resources LLC (White Oak) and related entities to support development of a longwall mining operation currently under construction. The transactions feature several components, including an equity investment in White Oak (represented by Series A Units containing certain distribution and liquidation preferences), the acquisition and lease-back of certain coal reserves and surface rights and a backstop equipment financing facility. Our initial investment funding to White Oak at the Transaction Date, consummated utilizing existing cash on hand, was \$69.5 million and we funded an additional \$197.7 million to White Oak between the Transaction Date and September 30, 2013. We expect to fund a total of approximately \$300.5 million from the Transaction Date through approximately the next 1.5 years, which includes the funding made to White Oak through September 30, 2013 discussed above. We are also committed to invest up to an additional \$125.0 million in Series A Units to the extent required for development or operation of the White Oak Mine No. 1 mine, which is subject to certain rights and obligations of other White Oak owners to participate in such investment. On the Transaction Date, we also entered into a coal handling and services agreement, pursuant to which we constructed and are operating a preparation plant and other surface facilities. We expect to fund these additional commitments utilizing existing cash balances, future cash flows from operations, borrowings under credit facilities and cash provided from the issuance of debt or equity. The following information discusses each component of these transactions in further detail.

*Hamilton County, Illinois Reserve Acquisition*

On the Transaction Date, our subsidiary, Alliance WOR Properties, LLC (WOR Properties), acquired from White Oak the rights to approximately 204.9 million tons of proven and probable high-sulfur coal reserves, of which 105.2 million tons are currently being developed for future mining by White Oak, and certain surface properties and rights in Hamilton County, Illinois (the Reserve Acquisition). Hamilton County is adjacent to White County, Illinois, where our White County Coal, LLC Pattiki mine is located. The asset purchase price of \$33.8 million cash paid at closing was allocated to owned and leased coal rights. Between the Transaction Date and December 31, 2012, WOR Properties provided \$51.6 million to White Oak for development of the acquired coal reserves. During the nine months ended September 30, 2013, WOR Properties acquired from White Oak for \$21.3 million cash paid at closing, an additional 75.4 million tons of reserves, of which 38.8 million tons are currently being developed for future mining by White Oak. WOR Properties has a remaining commitment of \$33.2 million for additional coal reserve purchases and development funding.

*Equity Investment Series A Units*

Concurrent with the Reserve Acquisition, our subsidiary, Alliance WOR Processing, LLC (WOR Processing), made an equity investment of \$35.7 million in White Oak to purchase Series A Units representing ownership in White Oak. WOR Processing purchased \$66.8 million of additional Series A Units between the Transaction Date and December 31, 2012 and \$47.5 million of additional Series A Units during the nine months ended September 30, 2013, fulfilling WOR Processing's minimum equity investment commitment. Based on currently anticipated equity contributions by other White Oak owners, we do not expect to make further equity investments in White Oak in 2013.

WOR Processing's ownership and member's voting interest in White Oak at September 30, 2013 were 20.0% based upon currently outstanding voting units. The remainder of the equity ownership in White Oak, represented by Series B Units, is held by other investors and members of White Oak management.

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We continually review all rights provided to WOR Processing and us by various agreements with White Oak and continue to conclude all such rights are protective or participating in nature and do not provide WOR Processing or us the ability to unilaterally direct any of the primary activities of White Oak

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that most significantly impact its economic performance. As such, we recognize WOR Processing's interest in White Oak as an equity investment in affiliate in our consolidated balance sheets. As of September 30, 2013, WOR Processing had invested \$150.0 million in Series A Units of White Oak equity, which represents our current maximum exposure to loss as a result of our equity investment in White Oak exclusive of capitalized interest. White Oak has made no distributions to us.

We record WOR Processing's equity in earnings or losses of affiliates under the hypothetical liquidation at book value method of accounting due to the preferences to which WOR Processing is entitled on distributions. For the three and nine months ended September 30, 2013 and 2012, we were allocated losses of \$6.2 million, \$3.0 million, \$16.3 million and \$11.6 million, respectively.

*Services Agreement*

Simultaneous with the closing of the Reserve Acquisition, WOR Processing entered into a Coal Handling and Preparation Agreement ( *Services Agreement* ) with White Oak pursuant to which WOR Processing committed to construct and operate a coal preparation plant and related facilities and a rail loop and loadout facility to service the White Oak longwall Mine No. 1. During the quarter ended September 30, 2013, WOR Processing began processing and loading coal through the facilities and earned throughput fees of \$0.6 million from White Oak.

In addition, the Intermediate Partnership agreed to loan \$10.5 million to White Oak for the construction of various assets on the surface property, including but not limited to, a bathhouse, office and warehouse ( *Construction Loan* ). The Construction Loan has a term of 20 years, with repayment scheduled to begin in 2015. White Oak has borrowed the entire amount available under the Construction Loan as of September 30, 2013.

**9. NET INCOME PER LIMITED PARTNER UNIT**

We apply the provisions of FASB ASC 260, *Earnings Per Share*, which requires the two-class method in calculating basic and diluted earnings per unit ( *EPU* ). Net income is allocated to the general partners and limited partners in accordance with their respective partnership percentages, after giving effect to any special income or expense allocations, including incentive distributions to our managing general partner, the holder of the IDR pursuant to our partnership agreement, which are declared and paid following the end of each quarter. Under the quarterly IDR provisions of our partnership agreement, our managing general partner is entitled to receive 15% of the amount we distribute in excess of \$0.275 per unit, 25% of the amount we distribute in excess of \$0.3125 per unit, and 50% of the amount we distribute in excess of \$0.375 per unit. Our partnership agreement contractually limits our distributions to available cash; therefore, undistributed earnings of the ARLP Partnership are not allocated to the IDR holder. In addition, our outstanding awards under our Long-Term Incentive Plan ( *LTIP* ) and phantom units in notional accounts under our Supplemental Executive Retirement Plan ( *SERP* ) and the MGP Amended and Restated Deferred Compensation Plan for Directors ( *Deferred Compensation Plan* ) include rights to nonforfeitable distributions or distribution equivalents and are therefore considered participating securities. As such, we allocate undistributed and distributed earnings to these outstanding awards in our calculation of EPU.



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The following is a reconciliation of net income used for calculating basic earnings per unit and the weighted average units used in computing EPU for the three and nine months ended September 30, 2013 and 2012 (in thousands, except per unit data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 87,186	\$ 60,510	\$ 294,197	\$ 238,933
Adjustments:				
Managing general partner's priority distributions	(29,906)	(26,584)	(87,275)	(76,771)
General partners' 2% equity ownership	(1,146)	(679)	(4,139)	(3,244)
Limited partners' interest in net income	56,134	33,247	202,783	158,918
Less:				
Distributions to participating securities	(597)	(531)	(1,749)	(1,549)
Undistributed earnings attributable to participating securities	(167)	-	(1,012)	(541)
Net income available to limited partners	\$ 55,370	\$ 32,716	\$ 200,022	\$ 156,828
Weighted average limited partner units outstanding - basic and diluted	36,963	36,875	36,949	36,859
Basic and diluted net income per limited partner unit (1)	\$ 1.50	\$ 0.89	\$ 5.41	\$ 4.25

(1) Diluted EPU gives effect to all dilutive potential common units outstanding during the period using the treasury stock method. Diluted EPU excludes all dilutive potential units calculated under the treasury stock method if their effect is anti-dilutive. For the three and nine months ended September 30, 2013 and 2012, LTIP, SERP and Deferred Compensation Plan units of 355,259, 323,146, 328,314 and 338,231 respectively, were considered anti-dilutive under the treasury stock method.

**10. WORKERS' COMPENSATION AND PNEUMOCONIOSIS**

The changes in the workers' compensation liability (including current and long-term liability balances) for each of the periods presented were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Beginning balance	\$ 80,630	\$ 81,195	\$ 77,046	\$ 73,201
Accruals increase	452	4,035	8,399	16,249
Payments	(2,553)	(2,395)	(8,156)	(7,984)

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Interest accretion	621	685	1,861	2,054
Ending balance	\$ 79,150	\$ 83,520	\$ 79,150	\$ 83,520

Lower accrual increases in 2013 compared to 2012 was primarily attributable to favorable reserve adjustments for claims incurred in prior years.

Certain of our mine operating entities are liable under state statutes and the Federal Coal Mine Health and Safety Act of 1969, as amended, to pay pneumoconiosis, or black lung, benefits to eligible employees and former employees and their dependents.

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Components of the net periodic benefit cost for each of the periods presented are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Service cost	\$ 953	\$ 960	\$ 2,858	\$ 2,795
Interest cost	563	598	1,690	1,773
Amortization of net loss (1)	168	194	503	582
Net periodic benefit cost	\$ 1,684	\$ 1,752	\$ 5,051	\$ 5,150

(1) Amortization of net loss is included in the operating expenses line item within our condensed consolidated statements of income.

## 11. COMPENSATION PLANS

### *Long-Term Incentive Plan*

We have the LTIP for certain employees and officers of our managing general partner and its affiliates who perform services for us. The LTIP awards are grants of non-vested phantom or notional units, which upon satisfaction of vesting requirements, entitle the LTIP participant to receive ARLP common units. Annual grant levels and vesting provisions for designated participants are recommended by our President and Chief Executive Officer, subject to review and approval of the compensation committee of the MGP board of directors (the Compensation Committee). On January 23, 2013, the Compensation Committee determined that the vesting requirements for the 2010 grants of 130,102 restricted units (which is net of 8,028 forfeitures) had been satisfied as of January 1, 2013. As a result of this vesting, on February 15, 2013, we issued 82,400 unrestricted common units to the LTIP participants. The remaining units were settled in cash to satisfy the individual statutory minimum tax obligations of the LTIP participants. On January 23, 2013, the Compensation Committee authorized additional grants of up to 156,575 restricted units, of which 146,725 were granted during the nine months ended September 30, 2013 and will vest on January 1, 2016, subject to satisfaction of certain financial tests. The fair value of these 2013 grants is equal to the intrinsic value at the date of grant, which was \$63.02 per unit. LTIP expense was \$1.8 million and \$1.6 million for the three months ended September 30, 2013 and 2012, respectively, and \$5.4 million and \$4.7 million for the nine months ended September 30, 2013 and 2012, respectively. After consideration of the January 1, 2013 vesting and subsequent issuance of 82,400 common units, 2.1 million units remain available under the LTIP for issuance in the future, assuming all grants issued in 2011, 2012 and 2013 currently outstanding are settled with common units, without reduction for tax withholding, and no future forfeitures occur.

As of September 30, 2013, there was \$10.7 million in total unrecognized compensation expense related to the non-vested LTIP grants that are expected to vest. That expense is expected to be recognized over a weighted-average period of 1.4 years. As of September 30, 2013, the intrinsic value of the non-vested LTIP grants was \$25.8 million. As of September 30, 2013, the total obligation associated with the LTIP was \$12.7 million and is included in the partners capital-limited partners line item in our condensed consolidated balance sheets.

As provided under the distribution equivalent rights provisions of the LTIP, all non-vested grants include contingent rights to receive quarterly cash distributions in an amount equal to the cash distributions we make to unitholders during the vesting period.



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*SERP and Directors Deferred Compensation Plan*

We utilize the SERP to provide deferred compensation benefits for certain officers and key employees. All allocations made to participants under the SERP are made in the form of phantom ARLP units. The SERP is administered by the Compensation Committee.

Our directors participate in the Deferred Compensation Plan. Pursuant to the Deferred Compensation Plan, for amounts deferred either automatically or at the election of the director, a notional account is established and credited with notional common units of ARLP, described in the Deferred Compensation Plan as phantom units.

For both the SERP and Deferred Compensation Plan, when quarterly cash distributions are made with respect to ARLP common units, an amount equal to such quarterly distribution is credited to each participant's notional account as additional phantom units. All grants of phantom units under the SERP and Deferred Compensation Plan vest immediately.

For the nine months ended September 30, 2013 and 2012, SERP and Deferred Compensation Plan participant notional account balances were credited with a total of 10,835 and 7,168 phantom units, respectively, and the fair value of these phantom units was \$68.32 per unit and \$64.77 per unit, respectively, on a weighted-average basis. Total SERP and Deferred Compensation Plan expense was approximately \$0.3 million and \$0.2 million for the three months ended September 30, 2013 and 2012, respectively, and \$0.9 and \$0.6 million for the nine months ended September 30, 2013 and 2012, respectively.

As of September 30, 2013, there were 167,626 total phantom units outstanding under the SERP and Deferred Compensation Plan and the total intrinsic value of the SERP and Deferred Compensation Plan phantom units was \$12.4 million. As of September 30, 2013, the total obligation associated with the SERP and Deferred Compensation Plan was \$11.1 million and is included in the partners' capital-limited partners line item in our condensed consolidated balance sheets.

**12. COMPONENTS OF PENSION PLAN NET PERIODIC BENEFIT COSTS**

Eligible employees at certain of our mining operations participate in a defined benefit plan (the Pension Plan) that we sponsor. The benefit formula for the Pension Plan is a fixed dollar unit based on years of service.

Components of the net periodic benefit cost for each of the periods presented are as follows (in thousands):

<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>

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Service cost	\$ 674	\$ 726	\$ 2,108	\$ 2,179
Interest cost	929	818	2,710	2,454
Expected return on plan assets	(930)	(956)	(3,094)	(2,868)
Amortization of net loss (1)	557	458	1,675	1,373
Net periodic benefit cost	\$ 1,230	\$ 1,046	\$ 3,399	\$ 3,138

(1) Amortization of net loss is included in the operating expenses line item within our condensed consolidated statements of income.

We previously disclosed in our financial statements for the year ended December 31, 2012 that we expected to contribute \$2.4 million to the Pension Plan in 2013. During the nine months ended

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September 30, 2013, we made contribution payments of \$1.6 million for the 2013 plan year. On October 15, 2013, we made a contribution payment of \$0.8 million for the 2013 plan year, bringing the total contributions to the Pension Plan in 2013 for the 2013 plan year to \$2.4 million as expected.

**13. SEGMENT INFORMATION**

We operate in the eastern U.S. as a producer and marketer of coal to major utilities and industrial users. We aggregate multiple operating segments into five reportable segments: the Illinois Basin, Central Appalachia, Northern Appalachia, White Oak and Other and Corporate. The first three reportable segments correspond to the three major coal producing regions in the eastern U.S. Similar economic characteristics for our operating segments within each of these three reportable segments include coal quality, coal seam height, mining and transportation methods and regulatory issues. The White Oak reportable segment includes our activities associated with the White Oak longwall Mine No. 1 development project more fully described below.

The Illinois Basin reportable segment is comprised of multiple operating segments, including Webster County Coal, LLC's Dotiki mining complex, Gibson County Coal, LLC's mining complex, which includes the Gibson North mine and Gibson South project, Hopkins County Coal, LLC's Elk Creek mining complex, White County Coal, LLC's Pattiki mining complex, Warrior Coal, LLC's mining complex, Sebree Mining, LLC's mining complex, which includes the Onton mine, and River View Coal, LLC's mining complex. The development of the Gibson South mine is currently underway. For information regarding the acquisition of the Onton mine, which was added to the Illinois Basin segment in April 2012, please see Note 4.

The Central Appalachian reportable segment is comprised of two operating segments, the MC Mining, LLC and Pontiki mining complexes.

The Northern Appalachian reportable segment is comprised of multiple operating segments, including the Mettiki mining complex, the Tunnel Ridge, LLC (Tunnel Ridge) mining complex and the Penn Ridge Coal, LLC (Penn Ridge) property. The Mettiki mining complex includes Mettiki Coal (WV), LLC's Mountain View mine, Mettiki Coal, LLC's preparation plant and a small third-party mining operation which has been idled since July 2013. In May 2012, longwall production began at the Tunnel Ridge mine. We are in the process of permitting the Penn Ridge property for future mine development.

The White Oak reportable segment is comprised of two operating segments, WOR Processing and WOR Properties. WOR Processing includes both the surface operations at White Oak and the equity investment in White Oak. WOR Properties owns coal reserves acquired from White Oak under lease-back arrangements (Note 8).

Other and Corporate includes marketing and administrative expenses, Alliance Service, Inc. (ASI) and its subsidiary, Matrix Design Group, LLC (Matrix Design), Alliance Design Group, LLC (Alliance Design) (collectively, Matrix Design and Alliance Design are referred to as the Matrix Group), ASI's ownership of aircraft, the Mt. Vernon Transfer Terminal, LLC (Mt. Vernon) dock activities, coal brokerage activity, our equity investment in Mid-America Carbonates, LLC and certain activities of Alliance Resource Properties.





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Reportable segment results as of and for the three and nine months ended September 30, 2013 and 2012 are presented below.

	<b>Illinois Basin</b>	<b>Central Appalachia</b>	<b>Northern Appalachia</b>	<b>White Oak (in thousands)</b>	<b>Other and Corporate</b>	<b>Elimination (1)</b>	<b>Consolidated</b>
Reportable segment results for the three months ended September 30, 2013 were as follows:							
Total revenues (2)	\$ 405,597	\$ 40,135	\$ 84,975	\$ 566	\$ 8,702	\$ (2,746)	\$ 537,229
Segment Adjusted EBITDA Expense (3)	239,962	30,348	69,415	546	8,784	(2,746)	346,309
Segment Adjusted EBITDA (4)(5)	156,790	9,775	12,864	(6,190)	137	-	173,376
Capital expenditures (7)	58,569	2,459	12,284	6,632	2,137	-	82,081
Reportable segment results for the three months ended September 30, 2012 were as follows:							
Total revenues (2)	\$ 365,119	\$ 41,790	\$ 100,142	\$ -	\$ 8,518	\$ (4,128)	\$ 511,441
Segment Adjusted EBITDA Expense (3)	221,731	35,563	81,761	174	7,713	(4,128)	342,814
Segment Adjusted EBITDA (4)(5)	140,329	6,228	15,813	(3,188)	988	-	160,170
Capital expenditures (7)	51,541	9,395	21,422	10,468	1,197	-	94,023
Reportable segment results as of and for the nine months ended September 30, 2013 were as follows:							
Total revenues (2)	\$ 1,210,806	\$ 126,701	\$ 284,303	\$ 566	\$ 26,696	\$ (10,217)	\$ 1,638,855
Segment Adjusted EBITDA Expense (3)	707,810	96,786	219,356	1,074	28,277	(10,217)	1,043,086
Segment Adjusted EBITDA (4)(5)	488,634	29,691	56,074	(16,777)	(868)	-	556,754
Total assets (6)	1,064,268	84,162	539,194	306,002	53,887	(865)	2,046,648
Capital expenditures (7)	163,595	8,758	51,154	35,502	4,962	-	263,971
Reportable segment results as of and for the nine months ended September 30, 2012 were as follows:							
Total revenues (2)	\$ 1,082,057	\$ 122,989	\$ 247,104	\$ -	\$ 46,674	\$ (13,933)	\$ 1,484,891
Segment Adjusted EBITDA Expense (3)	652,231	96,920	202,449	(1,517)	42,562	(13,933)	978,712
Segment Adjusted EBITDA (4)(5)	419,955	25,618	37,326	(10,072)	4,661	-	477,488
Total assets (6)	1,030,860	81,867	521,156	198,631	34,580	(825)	1,866,269
Capital expenditures (7)	173,656	25,143	82,320	74,712	11,123	-	366,954

(1) The elimination column represents the elimination of intercompany transactions and is primarily comprised of sales from the Matrix Group to our mining operations.

(2) Revenues included in the Other and Corporate column are primarily attributable to the Matrix Group revenues, Mt. Vernon transloading revenues, administrative service revenues from affiliates and brokerage sales.

(3) Segment Adjusted EBITDA Expense includes operating expenses, outside coal purchases and other income. Transportation expenses are excluded as these expenses are passed through to our customers and consequently we do not realize any gain or loss on transportation revenues.

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We review Segment Adjusted EBITDA Expense per ton for cost trends.

The following is a reconciliation of consolidated Segment Adjusted EBITDA Expense to operating expenses (excluding depreciation, depletion and amortization) (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Segment Adjusted EBITDA Expense	\$ 346,309	\$ 342,814	\$ 1,043,086	\$ 978,712
Outside coal purchases	(636)	(4,424)	(2,028)	(34,759)
Other income	372	254	999	2,853
Operating expenses (excluding depreciation, depletion and amortization)	\$ 346,045	\$ 338,644	\$ 1,042,057	\$ 946,806

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(4) Segment Adjusted EBITDA is defined as net income before net interest expense, income taxes, depreciation, depletion and amortization, general and administrative expenses and asset impairment charge. Management therefore is able to focus solely on the evaluation of segment operating profitability as it relates to our revenues and operating expenses, which are primarily controlled by our segments. Consolidated Segment Adjusted EBITDA is reconciled to net income as follows (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Consolidated Segment Adjusted EBITDA	\$ 173,376	\$ 160,170	\$ 556,754	\$ 477,488
General and administrative	(14,893)	(13,598)	(46,736)	(43,939)
Depreciation, depletion and amortization	(66,099)	(59,781)	(198,688)	(154,923)
Asset impairment charge	-	(19,031)	-	(19,031)
Interest expense, net	(5,916)	(7,352)	(18,440)	(21,388)
Income tax benefit				