

CNX Coal Resources LP  
Form 10-Q  
August 01, 2017

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

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

Commission file number: 001-14901

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CNX Coal Resources LP  
(Exact name of registrant as specified in its charter)

Delaware 47-3445032  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1000 CONSOL Energy Drive  
Canonsburg, PA 15317-6506  
(724) 485-4000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller Reporting Company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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CNX Coal Resources LP had 11,718,635 common units, 11,611,067 subordinated units, 3,956,496 Class A Preferred Units and a 1.7% general partner interest outstanding at July 31, 2017.

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Significant Relationships and Other Terms Referenced in this Quarterly Report

“Class A Preferred Units” means the convertible preferred units representing limited partner interests in CNX Coal Resources LP. The Partnership issued 3,956,496 Class A Preferred Units to CONSOL Energy on September 30, 2016. Key terms of the Class A Preferred Units include the following:

**Distributions:** Distributions on each outstanding Class A Preferred Unit will be cumulative, and will accumulate at 11% per annum (the “Class A Preferred Unit Distribution Rate”) for each calendar quarter beginning with the quarter ending December 31, 2016 until such time as the Partnership pays the full cumulative Class A Preferred Unit distribution in respect of such Class A Preferred Unit with respect to such calendar quarter or such Class A Preferred Unit is converted in accordance with the Partnership Agreement (as defined herein), whether or not such Class A Preferred distributions have been declared. Subject to certain exceptions, a holder of Class A Preferred Units (currently, CONSOL Energy) will be entitled to receive Class A Preferred distributions out of any assets of the Partnership legally available for the payment of distributions at the Class A Preferred Unit Distribution Rate when, as, and if declared by the Board of Directors of our general partner to be paid by the Partnership in accordance with the Partnership Agreement, will be paid quarterly, in arrears, at the election of the Partnership either in additional Class A Preferred Units or in cash;

**Voting:** Holders of Class A Preferred Units will have such voting rights as if their Class A Preferred Units were converted, on a one-for-one basis, into common units and will vote together with the holders of common units as a single class. Holders of Class A Preferred Units will be entitled to vote as a separate class on any matter that adversely affects the rights, privileges or preferences of the Class A Preferred Units in any material respect or as required by applicable law or regulation;

**Conversion at the Election of the Holder:** Class A Units are convertible, at the election of the holder, into common units on a one-for-one basis (i) at any time after September 30, 2017, (ii) with respect to the Partnership’s dissolution or liquidation and (iii) with respect to certain change of control events as described in the Partnership Agreement;

**Conversion at the Election of the Partnership:** All, but not less than all, of the outstanding Class A Preferred Units are convertible, at the election of the Partnership, into common units on a one-for-one basis, on or after September 30, 2019; provided, that (i) no “Class A Preferred Unit Payment Default” arising from the Partnership’s failure to pay in full any Class A Preferred Unit distribution, has occurred and is continuing; (ii) the volume-weighted average trading price of the common units over the 15-day trading period ending on the trading day immediately prior to the date of the conversion notice is equal to or greater than 140% of the issue price of the Class A Preferred Units; and (iii) the average trading volume is at least 35,000 common units (subject to customary anti-dilution adjustments) with respect to any 20 trading days within the 30-trading day period ending on the trading day immediately prior to the date of the conversion notice;

**Restrictions on Transfer:** Prior to September 30, 2017, other than transfers to affiliates, CONSOL Energy may not transfer any Class A Preferred Units without the approval of the Partnership;

“CNX Coal Finance” refers to CNX Coal Finance Corporation, a Delaware corporation and a direct, wholly-owned subsidiary of the Partnership;

“CNX Coal Resources LP,” the “Partnership,” “we,” “our,” “us” and similar terms, when used in a historical context, refer to CNX Coal Resources LP, a Delaware limited partnership, and its subsidiaries;

“CNX Operating” refers to CNX Operating LLC, a Delaware limited liability company and a direct, wholly-owned subsidiary of the Partnership;

“CNX Thermal Holdings” refers to CNX Thermal Holdings LLC, a Delaware limited liability company and a direct, wholly-owned subsidiary of CNX Operating; subsequent to the PA Mining Acquisition, CNX Thermal Holdings owns a 25% undivided interest in the assets, liabilities, revenues and expenses comprising the Pennsylvania Mining

Complex;

the “common units” refer to the limited partner interests in CNX Coal Resources LP. The holders of common units are entitled to participate in partnership distributions and are entitled to exercise the rights or privileges of limited partners under the Partnership Agreement. The common units are listed on the New York Stock Exchange, under the symbol “CNXC”;

“CONSOL Energy” and our “sponsor” refer to CONSOL Energy Inc., a Delaware corporation and the parent of our general partner, and its subsidiaries other than our general partner, us and our subsidiaries;

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“CPCC” refers to CONSOL Pennsylvania Coal Company LLC, a Delaware limited liability company and a wholly-owned subsidiary of CONSOL Energy;

“Conrhein” refers to Conrhein Coal Company, a Pennsylvania general partnership and a wholly-owned subsidiary of CONSOL Energy;

our “general partner” refers to CNX Coal Resources GP LLC, a Delaware limited liability company and our general partner;

“IPO” refers to the completion of the Partnership's initial public offering on July 7, 2015;

“Omnibus Agreement” refers to the Omnibus Agreement dated July 7, 2015, as replaced by the First Amended and Restated Omnibus Agreement dated as of September 30, 2016;

“PA Mining Acquisition” refers to a transaction which closed on September 30, 2016, where the Partnership and its wholly owned subsidiary, CNX Thermal, entered into a Contribution Agreement with CONSOL Energy, CPCC and Conrhein, under which CNX Thermal Holdings acquired an undivided 6.25% of the contributing parties’ right, title and interest in and to the Pennsylvania Mining Complex (which represents an aggregate 5% undivided interest in and to the Pennsylvania Mining Complex);

the “Partnership Agreement” refers to the First Amended and Restated Agreement of Limited Partnership of the Partnership, as replaced by the Second Amended and Restated Agreement of Limited Partnership of the Partnership dated as of September 30, 2016;

the “Pennsylvania Mining Complex” refers to the coal mines, coal reserves and related assets and operations, located primarily in southwestern Pennsylvania, owned 80% by CONSOL Energy and 20% by CNX Thermal Holdings, prior to the PA Mining Acquisition; and subsequent to the PA Mining Acquisition, owned 75% by CONSOL Energy, and its subsidiaries and 25% by CNX Thermal Holdings; and

the “preferred units” refer to any limited partnership interests, other than the common units and subordinated units, issued in accordance with the Partnership Agreement that, as determined by our general partner, have special voting rights to which our common units are not entitled. As of the date of this Quarterly Report on Form 10-Q, the only outstanding preferred units are the Class A Preferred Units.

PART I : FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
CNX COAL RESOURCES LP  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollars in thousands, except unit data)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Coal Revenue	\$75,927	\$ 62,640	\$155,039	\$ 119,181
Freight Revenue	4,441	2,797	7,511	6,066
Other Income	2,104	1,780	3,202	1,768
Total Revenue and Other Income	82,472	67,217	165,752	127,015
Operating and Other Costs <sup>1</sup>	50,232	46,046	100,115	84,536
Depreciation, Depletion and Amortization	10,277	10,422	20,798	20,739
Freight Expense	4,441	2,797	7,511	6,066
Selling, General and Administrative Expenses <sup>2</sup>	3,652	1,969	6,935	3,897
Interest Expense	2,396	2,076	4,853	4,054
Total Costs	70,998	63,310	140,212	119,292
Net Income	\$11,474	\$ 3,907	\$25,540	\$ 7,723
Less: Net Income Attributable to CONSOL Energy Pre-PA Mining Acquisition	—	1,300	—	2,617
Net Income Attributable to General and Limited Partner Ownership Interest in CNX Coal Resources	\$11,474	\$ 2,607	\$25,540	\$ 5,106
Less: General Partner Interest in Net Income	192	51	435	102
Less: Net Income Allocable to Class A Preferred Units	1,851	—	3,702	—
Limited Partner Interest in Net Income	\$9,431	\$ 2,556	\$21,403	\$ 5,004
Net Income per Limited Partner Unit - Basic	\$0.40	\$ 0.11	\$0.92	\$ 0.22
Net Income per Limited Partner Unit - Diluted	\$0.40	\$ 0.11	\$0.91	\$ 0.22
Limited Partner Units Outstanding - Basic	23,329,702	23,222,134	23,311,004	23,222,134
Limited Partner Units Outstanding - Diluted	23,470,050	23,301,391	23,444,923	23,254,115
Cash Distributions Declared per Unit <sup>3</sup>				
Common Unit	\$0.5125	\$ 0.5125	\$ 1.0250	\$ 1.0250
Subordinated Unit	\$0.5125	\$ —	\$ 1.0250	\$ 0.5125

<sup>1</sup> Related Party of \$867 and \$1,270 for the three months ended and \$1,739 and \$2,536 for the six months ended June 30, 2017 and June 30, 2016, respectively.

<sup>2</sup> Related Party of \$737 and \$1,190 for the three months ended and \$1,454 and \$2,305 for the six months ended June 30, 2017 and June 30, 2016, respectively.

<sup>3</sup> Represents the cash distributions declared related to the period presented. See Note 14 - Subsequent Events.

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

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CNX COAL RESOURCES LP  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Dollars in thousands)  
 (unaudited)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
Net Income	\$11,474	\$3,907	\$25,540	\$7,723
Recognized Net Actuarial Gain	(40 )	(22 )	(79 )	(47 )
Other Comprehensive Loss	(40 )	(22 )	(79 )	(47 )
Comprehensive Income	\$11,434	\$3,885	\$25,461	\$7,676

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

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CNX COAL RESOURCES LP  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands)

	(Unaudited)	
	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 6,608	\$ 9,785
Trade Receivables	26,025	23,418
Other Receivables	1,152	515
Inventories	14,007	11,491
Prepaid Expenses	2,680	3,512
Total Current Assets	50,472	48,721
Property, Plant and Equipment:		
Property, Plant and Equipment	883,343	876,690
Less—Accumulated Depreciation, Depletion and Amortization	462,587	442,178
Total Property, Plant and Equipment—Net	420,756	434,512
Other Assets:		
Other	19,107	21,063
Total Other Assets	19,107	21,063
<b>TOTAL ASSETS</b>	<b>\$ 490,335</b>	<b>\$ 504,296</b>
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
Current Liabilities:		
Accounts Payable		\$ 16,003    \$ 18,797
Accounts Payable—Related Party		2,196    1,666
Other Accrued Liabilities		44,403    44,318
Total Current Liabilities		62,602    64,781
Long-Term Debt:		
Revolver, Net of Debt Issuance and Financing Fees		187,292    197,843
Capital Lease Obligations		109    146
Total Long-Term Debt		187,401    197,989
Other Liabilities:		
Pneumoconiosis Benefits		2,613    2,057
Workers' Compensation		3,131    3,090
Asset Retirement Obligations		9,320    9,346
Other		437    463
Total Other Liabilities		15,501    14,956
<b>TOTAL LIABILITIES</b>		<b>265,504    277,726</b>
Partners' Capital:		
Class A Preferred Units (3,956,496 Units Outstanding at June 30, 2017 and December 31, 2016)	69,151	69,151
Common Units (11,718,635 Units Outstanding at June 30, 2017; 11,618,456 Units Outstanding at December 31, 2016)	140,607	140,967
Subordinated Units (11,611,067 Units Outstanding at June 30, 2017 and December 31, 2016)	(8,880 )	(7,631 )
General Partner Interest	12,223	12,274
Accumulated Other Comprehensive Income	11,730	11,809
Total Partners' Capital	224,831	226,570
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>\$ 490,335</b>	<b>\$ 504,296</b>

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

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CNX COAL RESOURCES LP  
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL  
(Dollars in thousands)

	Limited Partners				General Partner	Accumulated Other Comprehensive Income	Total
	Class A Preferred Units	Common	Subordinated				
Balance at December 31, 2016 (unaudited)	\$69,151	\$140,967	\$ (7,631 )	\$12,274	\$ 11,809	\$226,570	
Net Income	3,702	10,751	10,652	435	—	25,540	
Unitholder Distributions	(3,702 )	(12,011 )	(11,901 )	(486 )	—	(28,100 )	
Unit Based Compensation		1,707	—	—	—		