

ALLIANCE RESOURCE PARTNERS LP  
Form 10-K  
March 01, 2013

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

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**FORM 10-K**

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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**  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

**73-1564280**  
(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)

Securities registered pursuant to Section 12(b) of the Act: **Common Units representing limited partner interests**

**Title of Each Class**  
Common Units

**Name of Each Exchange On Which Registered**  
The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes o No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  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 the 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

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

The aggregate value of the common units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant, for this purpose, as if they may be affiliates of the registrant) was approximately \$1,159,989,064 as of June 29, 2012, the last business day of the registrant's most recently completed second fiscal quarter, based on the reported closing price of the common units as reported on the NASDAQ Stock Market, LLC on such date.

As of March 1, 2013, 36,963,054 common units were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: **None**

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**FORWARD-LOOKING STATEMENTS**

Certain statements and information in this Annual Report on Form 10-K may constitute "forward-looking statements." These statements are based on our beliefs as well as assumptions made by, and information currently available to, us. When used in this document, the words "anticipate," "believe," "continue," "estimate," "expect," "forecast," "may," "project," "will," and similar expressions identify forward-looking statements. Without limiting the foregoing, all statements relating to our future outlook, anticipated capital expenditures, future cash flows and borrowings and sources of funding are forward-looking statements. These statements reflect our current views with respect to future events and are subject to numerous assumptions that we believe are reasonable, but are open to a wide range of uncertainties and business risks, and actual results may differ materially from those discussed in these statements. Among the factors that could cause actual results to differ from those in the forward-looking statements are:

changes in competition in coal markets and our ability to respond to such changes;

changes in coal prices, which could affect our operating results and cash flows;

risks associated with the expansion of our operations and properties;

legislation, regulations, and court decisions and interpretations thereof, including those relating to the environment, mining, miner health and safety and health care;

deregulation of the electric utility industry or the effects of any adverse change in the coal industry, electric utility industry, or general economic conditions;

dependence on significant customer contracts, including renewing customer contracts upon expiration of existing contracts;

changing global economic conditions or in industries in which our customers operate;

liquidity constraints, including those resulting from any future unavailability of financing;

customer bankruptcies, cancellations or breaches to existing contracts, or other failures to perform;

customer delays, failure to take coal under contracts or defaults in making payments;

adjustments made in price, volume or terms to existing coal supply agreements;

fluctuations in coal demand, prices and availability;

our productivity levels and margins earned on our coal sales;

unexpected changes in raw material costs;

unexpected changes in the availability of skilled labor;

our ability to maintain satisfactory relations with our employees;

any unanticipated increases in labor costs, adverse changes in work rules, or unexpected cash payments or projections associated with post-mine reclamation and workers' compensation claims;

any unanticipated increases in transportation costs and risk of transportation delays or interruptions;

unexpected operational interruptions due to geologic, permitting, labor, weather-related or other factors;

risks associated with major mine-related accidents, such as mine fires, or interruptions;

results of litigation, including claims not yet asserted;

difficulty maintaining our surety bonds for mine reclamation as well as workers' compensation and black lung benefits;

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difficulty in making accurate assumptions and projections regarding pension, black lung benefits and other post-retirement benefit liabilities;

coal market's share of electricity generation, including as a result of environmental concerns related to coal mining and combustion and the cost and perceived benefits of other sources of electricity, such as natural gas, nuclear energy and renewable fuels;

uncertainties in estimating and replacing our coal reserves;

a loss or reduction of benefits from certain tax deductions and credits;

difficulty obtaining commercial property insurance, and risks associated with our participation (excluding any applicable deductible) in the commercial insurance property program;

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difficulty in making accurate assumptions and projections regarding future revenues and costs associated with equity investments in companies we do not control; and

other factors, including those discussed in "Item 1A. Risk Factors" and "Item 3. Legal Proceedings."

If one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may differ materially from those described in any forward-looking statement. When considering forward-looking statements, you should also keep in mind the risk factors described in "Item 1A. Risk Factors" below. The risk factors could also cause our actual results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to update the above list or to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

You should consider the information above when reading any forward-looking statements contained in this Annual Report on Form 10-K; other reports filed by us with the U.S. Securities and Exchange Commission ("SEC"); our press releases; our website <http://www.arlp.com>; and written or oral statements made by us or any of our officers or other authorized persons acting on our behalf.

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**Significant Relationships Referenced in this Annual Report**

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.

**PART I**

**ITEM 1. BUSINESS**

**General**

We are a diversified producer and marketer of coal primarily to major United States ("U.S.") utilities and industrial users. We began mining operations in 1971 and, since then, have grown through acquisitions and internal development to become the third-largest coal producer in the eastern U.S. At December 31, 2012, we had approximately 919.5 million tons of coal reserves in Illinois, Indiana, Kentucky, Maryland, Pennsylvania and West Virginia. Approximately 204.9 million tons of those reserves are leased to White Oak Resources LLC ("White Oak"). For more information on White Oak, please read "Item 8. Financial Statements and Supplementary Data Note 12. White Oak Transactions." In 2012, we sold a record 35.2 million tons of coal and produced a record 34.8 million tons of coal, of which 3.8% was low-sulfur coal, 18.8% was medium-sulfur coal and 77.4% was high-sulfur coal. In 2012, we sold 93.1% of our total tons to electric utilities, of which 98.7% was sold to utility plants with installed pollution control devices. These devices, also known as scrubbers, eliminate substantially all emissions of sulfur dioxide. We classify low-sulfur coal as coal with a sulfur content of less than 1%, medium-sulfur coal as coal with a sulfur content of 1% to 2%, and high-sulfur coal as coal with a sulfur content of greater than 2%.

We operate eleven underground mining complexes in Illinois, Indiana, Kentucky, Maryland and West Virginia. We also are constructing a new mine in southern Indiana, operate a coal loading terminal on the Ohio River at Mt. Vernon, Indiana and are purchasing and funding development of coal reserves, constructing surface facilities and making equity investments in White Oak's new mining complex in southern Illinois. Our mining activities are conducted in three geographic regions commonly referred to in the coal industry as the Illinois Basin, Central Appalachian and Northern Appalachian regions. We have grown historically, and expect to grow in the future, primarily through expansion of our operations by adding and developing mines and coal reserves in these regions.

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





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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 1.0001% managing general partner interest in ARLP and the Intermediate Partnership, respectively. AHGP is a Delaware limited partnership that owns and is the controlling member of MGP. AHGP completed its initial public offering ("AHGP IPO") on May 15, 2006 and is listed on the NASDAQ Global Select Market under the ticker symbol "AHGP." AHGP owns, directly and indirectly, 100% of the members' interest of MGP, a 0.001% managing interest in Alliance Coal, the incentive distribution rights ("IDR") in ARLP and 15,544,169 common units of ARLP. The following diagram depicts our organization and ownership as of December 31, 2012:

- (1) The units held by SGP and most of the units held by the Management Group (some of whom are current or former members of management) are subject to a transfer restrictions agreement that, subject to a number of exceptions (including certain transfers by Mr. Craft in which the other parties to the agreement are entitled or required to participate), prohibits the transfer of such units unless approved by a majority of the disinterested members of the board of directors of AGP pursuant to certain procedures set forth in the agreement or as otherwise provided in the agreement. Certain provisions of the transfer restrictions agreement may cause the parties to it to comprise a group under Rule 13d-5(b) of the Securities Exchange Act of 1934 (the "Exchange Act").

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Our internet address is <http://www.arlp.com>, and we make available free of charge on our website our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and Forms 3, 4 and 5 for our Section 16 filers (and amendments and exhibits, such as press releases, to such filings) as soon as reasonably practicable after we electronically file with or furnish such material to the SEC. Information on our website or any other website is not incorporated by reference into this report and does not constitute a part of this report.

We file or furnish annual, quarterly and current reports, proxy statements and other documents with the SEC under the Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at <http://www.sec.gov>.

### **Mining Operations**

We produce a diverse range of steam coals with varying sulfur and heat contents, which enables us to satisfy the broad range of specifications required by our customers. The following chart summarizes our coal production by region for the last five years.

Regions	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(tons in millions)				
Illinois Basin	28.4	25.5	23.7	20.7	20.3
Central Appalachian	1.9	2.5	2.3	2.6	3.2
Northern Appalachian	4.5	2.8	2.9	2.5	2.9
Total	34.8	30.8	28.9	25.8	26.4

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The following map shows the location of our mining complexes and projects:

***Illinois Basin Operations***

Our Illinois Basin mining operations are located in western Kentucky, southern Illinois and southern Indiana. As of February 1, 2013, we had 3,002 employees, and we operate seven mining complexes in the Illinois Basin.

***Dotiki Complex.*** Our subsidiary, Webster County Coal, LLC ("Webster County Coal"), operates Dotiki, which is an underground mining complex located near the city of Providence in Webster County, Kentucky. The complex was opened in 1966, and we purchased the mine in 1971. The Dotiki complex utilizes continuous mining units employing room-and-pillar mining techniques to produce high-sulfur coal. In connection with transitioning its mining operations from the No. 9 and the No. 11 seams, where it has historically operated, to the No. 13 seam, Dotiki constructed a new preparation plant that became operational in early 2012 and has throughput capacity of 1,800 tons of raw coal per hour. Coal from the Dotiki complex is shipped via the CSX Transportation, Inc. ("CSX") and Paducah & Louisville Railway, Inc. ("PAL") railroads and by truck on U.S. and state highways directly to customers or to various transloading facilities, including our Mt. Vernon Transfer Terminal, LLC ("Mt. Vernon") transloading facility, for barge deliveries.

***Warrior Complex.*** Our subsidiary, Warrior Coal, LLC ("Warrior"), operates an underground mining complex located near the city of Madisonville in Hopkins County, Kentucky. The Warrior complex was opened in 1985, and we acquired it in February 2003. Warrior utilizes continuous mining units employing room-and-pillar mining techniques to produce high-sulfur coal. Warrior completed construction of a new

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preparation plant in the first quarter of 2009, which has throughput capacity of 1,200 tons of raw coal per hour. Warrior's production can be shipped via the CSX and PAL railroads and by truck on U.S. and state highways directly to customers or to various transloading facilities, including our Mt. Vernon transloading facility, for barge deliveries. In 2011, Warrior acquired the Richland No. 9 Mine ("Richland") located near the Warrior complex. Production from Richland, which began in January 2012, is processed through Warrior's preparation plant, and is expected to be exhausted in 2014.

*Pattiki Complex.* Our subsidiary, White County Coal, LLC ("White County Coal"), operates Pattiki, an underground mining complex located near the city of Carmi in White County, Illinois. We began construction of the complex in 1980 and have operated it since its inception. The Pattiki complex utilizes continuous mining units employing room-and-pillar mining techniques to produce high-sulfur coal. The preparation plant has throughput capacity of 1,000 tons of raw coal per hour. Coal from the Pattiki complex is shipped via the Evansville Western Railway, Inc. ("EVW") railroad directly, or via connection with the CSX railroad, to customers or to various transloading facilities, including our Mt. Vernon transloading facility, for barge deliveries.

*Hopkins Complex.* The Hopkins complex, which we acquired in January 1998, is located near the city of Madisonville in Hopkins County, Kentucky. Our subsidiary, Hopkins County Coal, LLC ("Hopkins County Coal") operates the Elk Creek underground mine using continuous mining units employing room-and-pillar mining techniques to produce high-sulfur coal. Coal produced from the Elk Creek mine is processed and shipped through Hopkins County Coal's preparation plant, which has throughput capacity of 1,200 tons of raw coal per hour. Elk Creek's production can be shipped via the CSX and PAL railroads and by truck on U.S. and state highways directly to customers or to various transloading facilities, including our Mt. Vernon transloading facility, for barge deliveries.

*Gibson Complex.* Our subsidiary, Gibson County Coal, LLC ("Gibson County Coal"), operates the Gibson North mine, an underground mine located near the city of Princeton in Gibson County, Indiana. The Gibson North mine began production in November 2000 and utilizes continuous mining units employing room-and-pillar mining techniques to produce medium-sulfur coal. The Gibson North mine's preparation plant, which is leased from an affiliate, has throughput capacity of 700 tons of raw coal per hour. Production from the Gibson North mine is either shipped by truck on U.S. and state highways or transported by rail on the CSX and Norfolk Southern Railway Company ("NS") railroads directly to customers or to various transloading facilities, including our Mt. Vernon transloading facility, for barge deliveries.

Gibson County Coal is constructing the Gibson South mine, also located near the city of Princeton in Gibson County, Indiana. The Gibson South mine will be an underground mine and will utilize continuous mining units employing room-and-pillar mining techniques to produce medium-sulfur coal. The Gibson South mine's preparation plant will have throughput capacity of 1,800 tons of raw coal per hour. Production from Gibson South mine will be shipped by truck on U.S. and state highways or transported by rail from the Gibson North rail loadout facility directly to customers or to various transloading facilities, including our Mt. Vernon transloading facility, for barge delivery. Construction of the mine began in 2011, and we expect production to begin in the fourth quarter of 2014 and annual production to reach approximately 3.0 to 3.5 million tons in 2015 and approximately 5.2 million tons beginning in 2016. Capital expenditures required to develop the Gibson South mine are estimated to be in the range of approximately \$200.0 million to \$210.0 million, of which approximately \$47.5 million has been incurred as of December 31, 2012. These amounts exclude capitalized interest and capitalized mine development costs associated with incidental production. (For more information about mine development costs, please read "Mine Development Costs" under "Item 8. Financial Statements and Supplementary Data Note 2. Summary of Significant Accounting Policies.")

*River View Complex.* In April 2006, we acquired River View Coal, LLC ("River View"), which controlled coal reserves located in Union County, Kentucky, from ARH. In July 2007, we began

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construction of an underground mining complex to access the reserves. Production began in August 2009. River View utilizes continuous mining units employing room-and-pillar mining techniques to produce high-sulfur coal. River View's preparation plant has throughput capacity of 1,800 tons of raw coal per hour. Coal produced from the River View mine is transported by overland belt to a barge loading facility on the Ohio River.

*Sebree Mining Complex.* On April 2, 2012, we acquired substantially all of Green River Collieries, LLC's assets related to its coal mining business and operations located in Webster and Hopkins Counties, Kentucky, including the Onton mine. The Onton mine is operated by our subsidiary, Sebree Mining, LLC ("Sebree Mining"). Sebree Mining utilizes continuous mining units employing room-and-pillar mining techniques to produce high-sulfur coal. The Onton mine's preparation plant, which is leased from a third-party, has throughput capacity of 750 tons of raw coal per hour. Coal from the Sebree Mining complex is transported by overland belt to a barge loading facility on the Green River for shipment to customers, or is shipped via truck on U.S. and state highways directly to customers.

Sebree Mining is in the process of permitting undeveloped reserves in Webster County, Kentucky, which we refer to as the "Sebree Reserves", and related property for future development. We control these reserves through our subsidiaries, Alliance Resource Properties, LLC ("Alliance Resource Properties") and ARP Sebree, LLC.

***Central Appalachian Operations***

Our Central Appalachian mining operations are located in eastern Kentucky. As of February 1, 2013, we had 477 employees, and we operate two mining complexes in Central Appalachia.

*Pontiki Complex.* The Pontiki complex is located near the city of Inez in Martin County, Kentucky. We constructed the mine in 1977. Our subsidiary, Pontiki Coal, LLC ("Pontiki"), owns the mining complex and controls the reserves, and our subsidiary, Excel Mining, LLC ("Excel"), conducts all mining operations. The underground operation utilizes continuous mining units employing room-and-pillar mining techniques to produce low- and medium-sulfur coal. The preparation plant has throughput capacity of 900 tons of raw coal per hour. Coal produced from the mine is shipped via the NS railroad directly to customers or to various transloading facilities on the Ohio River for barge deliveries, or by truck via U.S. and state highways directly to customers or to various docks on the Big Sandy River for barge deliveries. The complex was idled on August 29, 2012 following a closure order affecting the surface facilities by the Mine Safety and Health Administration ("MSHA"). Operations resumed on November 25, 2012.

*MC Mining Complex.* The MC Mining complex is located near the city of Pikeville in Pike County, Kentucky. We acquired the mine in 1989. Our subsidiary, MC Mining, LLC ("MC Mining"), owns the mining complex and controls the reserves, and Excel conducts all mining operations. The underground operation utilizes continuous mining units employing room-and-pillar mining techniques to produce low-sulfur coal. In 2011, Excel began development mining in a new area containing in excess of 10.0 million saleable tons of coal, to which all mining will be transitioned by the end of 2013. The preparation plant has throughput capacity of 1,000 tons of raw coal per hour. Substantially all of the coal produced at MC Mining in 2012 met or exceeded the compliance requirements of Phase II of the Federal Clean Air Act ("CAA") (see "Regulation and Laws *Air Emissions*" below). Coal produced from the mine is shipped via the CSX railroad directly to customers or to various transloading facilities on the Ohio River for barge deliveries, or by truck via U.S. and state highways directly to customers or to various docks on the Big Sandy River for barge deliveries.

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***Northern Appalachian Operations***

Our Northern Appalachian mining operations are located in Maryland and West Virginia. As of February 1, 2013, we had 612 employees, and we operate two mining complexes in Northern Appalachia. We also control undeveloped reserves in West Virginia and Pennsylvania.

***Mettiki Complex.*** The Mettiki Complex comprises the Mountain View mine located in Tucker County, West Virginia operated by our subsidiary Mettiki Coal (WV), LLC ("Mettiki (WV)") and a preparation plant located near the city of Oakland in Garrett County, Maryland operated by our subsidiary Mettiki Coal, LLC ("Mettiki (MD)"). In addition, production from the Mountain View mine can be supplemented with production from a smaller-scale mine operated by a third-party on property in Maryland controlled by another of our subsidiaries, Backbone Mountain, LLC. Mettiki (WV) began continuous miner development of the Mountain View mine in July 2005 and began longwall mining in November 2006. The Mountain View mine produces medium-sulfur coal which is transported by truck either to the Mettiki (MD) preparation plant for processing or directly to the coal blending facility at the Virginia Electric and Power Company ("VEPCO") Mt. Storm Power Station. The Mettiki (MD) preparation plant has throughput capacity of 1,350 tons of raw coal per hour. Coal processed at the preparation plant can be trucked to the blending facility at Mt. Storm or shipped via the CSX railroad, which provides the opportunity to ship into the domestic and export metallurgical coal markets.

***Tunnel Ridge Complex.*** Our subsidiary, Tunnel Ridge, LLC ("Tunnel Ridge"), operates the Tunnel Ridge mine, an underground, longwall mine in the Pittsburgh No. 8 coal seam, located near Wheeling, West Virginia. Tunnel Ridge began construction of the mine and related facilities in 2008. Development mining began in 2010, and we had incidental production of approximately 268,000 tons in 2011 as development mining continued. Longwall mining operations began at Tunnel Ridge in the second quarter of 2012 (mid-May). The mine produced just over 2.0 million tons in 2012 and we expect annual production to ultimately reach approximately 5.8 million tons. Coal produced from the Tunnel Ridge mine is transported by conveyor belt to a barge loading facility on the Ohio River. Through an agreement with a third-party, Tunnel Ridge has the ability to transload coal from barges for rail shipment on Wheeling and Lake Erie Railway. Capital expenditures required for development of Tunnel Ridge totaled approximately \$280.0 million. This amount excludes capitalized interest and capitalized mine development costs associated with incidental production. (For more information about mine development costs, please read "Mine Development Costs" under "Item 8. Financial Statements and Supplementary Data Note 2. Summary of Significant Accounting Policies.")

***Penn Ridge.*** Our subsidiary, Penn Ridge Coal, LLC ("Penn Ridge"), is party to a coal lease agreement effective December 31, 2005 with Allegheny Pittsburgh Coal Company ("Allegheny"), pursuant to which Penn Ridge leases Allegheny's Buffalo coal reserve in Washington County, Pennsylvania, which is estimated to include approximately 56.7 million tons of proven and probable high-sulfur coal in the Pittsburgh No. 8 seam. Penn Ridge has initiated the permitting process for the Buffalo coal reserves and continues to evaluate development. (For more information on the permitting process, and matters that could hinder or delay the process, please read "Regulation and Laws *Mining Permits and Approvals.*") Development of the project is regulatory and market dependent, and its timing is open-ended pending obtaining all required regulatory approvals, sufficient coal sales commitments to support the project and final approval by the board of directors of our managing general partner ("Board of Directors").

**Other Operations**

***Mt. Vernon Transfer Terminal, LLC***

Our subsidiary, Mt. Vernon, leases land and operates a coal loading terminal on the Ohio River at Mt. Vernon, Indiana. Coal is delivered to Mt. Vernon by both rail and truck. The terminal has a capacity of

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8.0 million tons per year with existing ground storage of approximately 60,000 to 70,000 tons. During 2012, the terminal loaded approximately 1.1 million tons for customers of Pattiki, Gibson and Elk Creek.

***Coal Brokerage***

As markets allow, we buy coal from non-affiliated producers principally throughout the eastern U.S., which we then resell. We have a policy of matching our outside coal purchases and sales to minimize market risks associated with buying and reselling coal. In 2012, we sold approximately 255,000 tons classified as brokerage coal.

***Alliance WOR Processing, LLC***

In September 2011, we completed a series of transactions with White Oak related to the development of White Oak Mine No. 1 near the city of McLeansboro, Illinois, which is under construction and will be an underground longwall mining operation producing high-sulfur coal from the Herrin No. 6 seam. Initial production from the continuous miner development units is expected to begin in 2013, and longwall mining is expected to begin in 2014. As part of the White Oak transaction, our subsidiary, Alliance WOR Processing, LLC ("WOR Processing"), contracted with White Oak to construct, own, and operate the coal handling and processing facilities associated with the Mine No. 1 mine, which will have the capacity to process 2,000 tons of raw coal per hour. White Oak will have the ability to ship production from the Mine No. 1 mine via rail directly to customers or to various transloading facilities, including our Mt. Vernon transloading facility, for barge deliveries. WOR Processing also has an equity investment in White Oak. For more information about the White Oak transactions, please read "Item 8. Financial Statements and Supplementary Data Note 12. White Oak Transactions."

***Alliance Resource Properties, LLC***

Alliance Resource Properties owns coal reserves that it leases to certain of our subsidiaries that operate our mining complexes. In September 2011, Alliance Resource Properties' subsidiary, Alliance WOR Properties, LLC ("WOR Properties"), acquired from our affiliate White Oak the rights to approximately 204.9 million tons of proven and probable high-sulfur coal reserves, and leased those reserves back to White Oak. Approximately 105.2 million tons of those reserves are currently being developed for future mining by White Oak. Once coal sales begin from the mine, White Oak will pay WOR Properties earned royalties and during the period beginning January 1, 2015 and ending December 31, 2034 will pay WOR Properties a fully recoupable minimum monthly royalty of \$1.625 million. WOR Properties anticipates receiving royalties from White Oak beginning in 2013 with the start-up of incidental production from White Oak's mine development.

***Matrix Group***

Our subsidiaries, Matrix Design Group, LLC ("Matrix Design") and Alliance Design Group, LLC ("Alliance Design") (collectively, "Matrix Group"), provide a variety of mine products and services for our mining operations and to unrelated parties. We acquired this business in September 2006. Matrix Group's products and services include design and installation of underground mine hoists for transporting employees and materials in and out of mines; design of systems for automating and controlling various aspects of industrial and mining environments; and design and sale of mine safety equipment, including its miner and equipment tracking and proximity detection systems. In 2012, our financial results were not significantly impacted by Matrix Group's activities.

***Additional Services***

We develop and market additional services in order to establish ourselves as the supplier of choice for our customers. Examples of the kind of services we have offered to date include ash and scrubber sludge

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removal, coal yard maintenance and arranging alternate transportation services. Historically, and in 2012, revenues from these services have been immaterial. In addition, our affiliate, Mid-America Carbonates, LLC ("MAC"), which is a joint venture with White County Coal, manufactures and sells rock dust to us and to unrelated parties. In 2012, our financial results were not significantly impacted by MAC's business.

***Reportable Segments***

Please read "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and Segment Information under "Item 8. Financial Statements and Supplementary Data Note 22. Segment Information" for information concerning our reportable segments.

**Coal Marketing and Sales**

As is customary in the coal industry, we have entered into long-term coal supply agreements with many of our customers. These arrangements are mutually beneficial to us and our customers in that they provide greater predictability of sales volumes and sales prices. In 2012, approximately 94.2% and 94.3% of our sales tonnage and total coal sales, respectively, were sold under long-term contracts (contracts having a term of one year or greater) with committed term expirations ranging from 2013 to 2020. As of January 28, 2013, our nominal commitment under long-term contracts was approximately 38.5 million tons in 2013, 30.7 million tons in 2014, 23.4 million tons in 2015 and 18.7 million tons in 2016. The commitment of coal under contract is an approximate number because a limited number of our contracts contain provisions that could cause the nominal commitment to increase or decrease; however, the overall variance to total committed sales is minimal. The contractual time commitments for customers to nominate future purchase volumes under these contracts are typically sufficient to allow us to balance our sales commitments with prospective production capacity. In addition, the nominal commitment can otherwise change because of reopener provisions contained in certain of these long-term contracts.

The provisions of long-term contracts are the results of both bidding procedures and extensive negotiations with each customer. As a result, the provisions of these contracts vary significantly in many respects, including, among other factors, price adjustment features, price and contract reopener terms, permitted sources of supply, force majeure provisions, coal qualities and quantities. Virtually all of our long-term contracts are subject to price adjustment provisions, which permit an increase or decrease periodically in the contract price to reflect changes in specified price indices or items such as taxes, royalties or actual production costs. These provisions, however, may not assure that the contract price will reflect every change in production or other costs. Failure of the parties to agree on a price pursuant to an adjustment or a reopener provision can, in some instances, lead to early termination of a contract. Some of the long-term contracts also permit the contract to be reopened for renegotiation of terms and conditions other than pricing terms, and where a mutually acceptable agreement on terms and conditions cannot be concluded, either party may have the option to terminate the contract. The long-term contracts typically stipulate procedures for transportation of coal, quality control, sampling and weighing. Most contain provisions requiring us to deliver coal within stated ranges for specific coal characteristics such as heat, sulfur, ash, moisture, grindability, volatility and other qualities. Failure to meet these specifications can result in economic penalties, rejection or suspension of shipments or termination of the contracts. While most of the contracts specify the approved seams and/or approved locations from which the coal is to be mined, some contracts allow the coal to be sourced from more than one mine or location. Although the volume to be delivered pursuant to a long-term contract is stipulated, the buyers often have the option to vary the volume within specified limits.

**Reliance on Major Customers**

Our two largest customers in 2012 were Louisville Gas and Electric Company and Tennessee Valley Authority. During 2012, we derived approximately 28.5% of our total revenues from these two customers



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and at least 10.0% of our total revenues from each of the two. For more information about these customers, please read "Item 8. Financial Statements and Supplementary Data Note 21. Concentration of Credit Risk and Major Customers."

**Competition**

The coal industry is intensely competitive. The most important factors on which we compete are coal price, coal quality (including sulfur and heat content), transportation costs from the mine to the customer and the reliability of supply. Our principal competitors include Alpha Natural Resources, Inc., Arch Coal, Inc., CONSOL Energy, Inc., James River Coal Company, Murray Energy, Inc., Foresight Energy LLC and Peabody Energy Corp. Some of these coal producers are larger and have greater financial resources and larger reserve bases than we do. We also compete directly with a number of smaller producers in the Illinois Basin, Central Appalachian and Northern Appalachian regions. The prices we are able to obtain for our coal are primarily linked to coal consumption patterns of domestic electricity generating utilities, which in turn are influenced by economic activity, government regulations, weather and technological developments. Additionally, we export a portion of our coal into the international coal markets. The prices we are able to obtain for our export coal are influenced by a number of factors, such as global economic conditions, weather patterns and political instability, among others. Further, coal competes with other fuels such as petroleum, natural gas, nuclear energy and renewable energy sources for electrical power generation. Over time, costs and other factors, such as safety and environmental considerations, may affect the overall demand for coal as a fuel. For additional information, please see "Item 1A. Risk Factors." As the price of domestic coal increases, we may also begin to compete with companies that produce coal from one or more foreign countries.

**Transportation**

Our coal is transported to our customers by rail, truck and barge. Depending on the proximity of the customer to the mine and the transportation available for delivering coal to that customer, transportation costs can range from 2.9% to 48.0% of the total delivered cost of a customer's coal. As a consequence, the availability and cost of transportation constitute important factors in the marketability of coal. We believe our mines are located in favorable geographic locations that minimize transportation costs for our customers, and in many cases we are able to accommodate multiple transportation options. Typically, our customers pay the transportation costs from the mining complex to the destination, which is the standard practice in the industry. Approximately 52.3% of our 2012 sales volume was initially shipped from the mines by rail, 13.1% was shipped from the mines by truck and 34.6% was shipped from the mines by barge. In 2012, the largest volume transporter of our coal shipments was the CSX railroad which moved approximately 33.0% of our tonnage over its rail system. The practices of, and rates set by, the transportation company serving a particular mine or customer may affect, either adversely or favorably, our marketing efforts with respect to coal produced from the relevant mine.

**Regulation and Laws**

The coal mining industry is subject to extensive regulation by federal, state and local authorities on matters such as:

- employee health and safety;
- mine permits and other licensing requirements;
- air quality standards;
- water quality standards;
- storage of petroleum products and substances which are regarded as hazardous under applicable laws or which, if spilled, could reach waterways or wetlands;
- plant and wildlife protection;
- reclamation and restoration of mining properties after mining is completed;
- discharge of materials into the environment;
- storage and handling of explosives;
- wetlands protection;
- surface subsidence from underground mining; and

the effects, if any, that mining has on groundwater quality and availability.

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In addition, the utility industry is subject to extensive regulation regarding the environmental impact of its power generation activities, which could affect demand for coal. It is possible that new legislation or regulations may be adopted, or that existing laws or regulations may be differently interpreted or more stringently enforced, any of which could have a significant impact on our mining operations or our customers' ability to use coal. For more information, please see risk factors described in "Item 1A. Risk Factors" below.

We are committed to conducting mining operations in compliance with applicable federal, state and local laws and regulations. However, because of the extensive and detailed nature of these regulatory requirements, particularly the regulatory system of the MSHA where citations can be issued without regard to fault and many of the standards include subjective elements, it is not reasonable to expect any coal mining company to be free of citations. When we receive a citation, we attempt to remediate any identified condition immediately. None of our violations to date has had a material impact on our operations or financial condition. While it is not possible to quantify all of the costs of compliance with applicable federal and state laws and associated regulations, those costs have been and are expected to continue to be significant. Compliance with these laws and regulations has substantially increased the cost of coal mining for domestic coal producers.

Capital expenditures for environmental matters have not been material in recent years. We have accrued for the present value of the estimated cost of asset retirement obligations and mine closings, including the cost of treating mine water discharge, when necessary. The accruals for asset retirement obligations and mine closing costs are based upon permit requirements and the costs and timing of asset retirement obligations and mine closing procedures. Although management believes it has made adequate provisions for all expected reclamation and other costs associated with mine closures, future operating results would be adversely affected if these accruals were insufficient.

***Mining Permits and Approvals***

Numerous governmental permits or approvals are required for mining operations. Applications for permits require extensive engineering and data analysis and presentation, and must address a variety of environmental, health and safety matters associated with a proposed mining operation. These matters include the manner and sequencing of coal extraction, the storage, use and disposal of waste and other substances and other impacts on the environment, the construction of water containment areas, and reclamation of the area after coal extraction. Meeting all requirements imposed by any of these authorities may be costly and time consuming, and may delay or prevent commencement or continuation of mining operations.

The permitting process for certain mining operations can extend over several years and can be subject to judicial challenge, including by the public. Some required mining permits are becoming increasingly difficult to obtain in a timely manner, or at all. We cannot assure you that we will not experience difficulty or delays in obtaining mining permits in the future.

We are required to post bonds to secure performance under our permits. Under some circumstances, substantial fines and penalties, including revocation of mining permits, may be imposed under the laws and regulations described above. Monetary sanctions and, in severe circumstances, criminal sanctions may be imposed for failure to comply with these laws and regulations. Regulations also provide that a mining permit can be refused or revoked if the permit applicant or permittee owns or controls, directly or indirectly through other entities, mining operations that have outstanding environmental violations. Although, like other coal companies, we have been cited for violations in the ordinary course of our business, we have never had a permit suspended or revoked because of any violation, and the penalties assessed for these violations have not been material.

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*Mine Health and Safety Laws*

Stringent safety and health standards have been imposed by federal legislation since the Federal Coal Mine Health and Safety Act of 1969 ("CMHSA") was adopted. The Federal Mine Safety and Health Act of 1977 ("FMSHA"), and regulations adopted pursuant thereto, significantly expanded the enforcement of health and safety standards of the CMHSA, and imposed extensive and detailed safety and health standards on numerous aspects of mining operations, including training of mine personnel, mining procedures, blasting, the equipment used in mining operations, and numerous other matters. The MSHA monitors and rigorously enforces compliance with these federal laws and regulations. In addition, most of the states where we operate have state programs for mine safety and health regulation and enforcement. Federal and state safety and health regulations affecting the coal mining industry are perhaps the most comprehensive and rigorous system in the United States for protection of employee safety and have a significant effect on our operating costs. Although many of the requirements primarily impact underground mining, our competitors in all of the areas in which we operate are subject to the same laws and regulations.

The FMSHA has been construed as authorizing MSHA to issue citations and orders pursuant to the legal doctrine of strict liability, or liability without fault, and FMSHA requires imposition of a civil penalty for each cited violation. Negligence and gravity assessments, and other factors can result in the issuance of various types of orders, including orders requiring withdrawal from the mine or the affected area, and some orders can also result in the imposition of civil penalties. The FMSHA also contains criminal liability provisions. For example, criminal liability may be imposed upon corporate operators who knowingly and willfully authorize, order or carry out violations of the FMSHA, or its mandatory health and safety standards.

The Federal Mine Improvement and New Emergency Response Act of 2006 ("MINER Act") significantly amended the FMSHA, imposing more extensive and stringent compliance standards, increasing criminal penalties and establishing a maximum civil penalty for non-compliance, and expanding the scope of federal oversight, inspection, and enforcement activities. Following the passage of the MINER Act, MSHA has issued new or more stringent rules and policies on a variety of topics, including:

- sealing off abandoned areas of underground coal mines;
- mine safety equipment, training and emergency reporting requirements;
- substantially increased civil penalties for regulatory violations;
- training and availability of mine rescue teams;
- underground "refuge alternatives" capable of sustaining trapped miners in the event of an emergency;
- flame-resistant conveyor belts, fire prevention and detection, and use of air from the belt entry; and
- post-accident two-way communications and electronic tracking systems.

MSHA continues to interpret and implement various provisions of the MINER Act, along with introducing new proposed regulations and standards. Among these new proposed regulations is MSHA's proposed rule titled "Lowering Miner's Exposure to Respirable Coal Mine Dust, Including Continuous Personal Dust Monitors." The proposed rule would require a 50% reduction in the allowable respirable coal mine dust exposure limits and require each operation to significantly increase the number of respirable coal mine dust samples taken. The rule would also increase oversight by MSHA regarding coal mine dust and ventilation issues at each mine, including the approval process for ventilation plans at each mine. Federal legislation was enacted in 2011 to prevent MSHA from implementing or enforcing the proposed rule until such time as the General Accounting Office ("GAO") performed an independent assessment of MSHA's data and methodology used in creating the rule. Although the GAO performed this assessment in 2012, MSHA has not yet announced when the final rule will be promulgated.

Additionally, in 2012, MSHA promulgated a final rule to expand the job responsibilities of mine employees who perform pre-shift and on-shift examinations of working areas within underground coal

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mines. These employees examine the mine for hazards and to verify that atmospheric and ventilation conditions are in compliance with regulations. Under MSHA's new rule, examiners are now also required to examine for, and record the presence of, certain types of regulation violations for which MSHA inspectors would be inspecting.

Effective March 25, 2013, MSHA will begin implementing its recently released Pattern of Violation ("POV") regulations under the FMSHA. Under this new POV regulation, MSHA will eliminate the ninety (90) day window, during which mine operators meeting certain initial POV screening criteria could take corrective action and engage in mitigation efforts to avoid being placed on POV status. Additionally, MSHA will make POV determinations based upon enforcement actions as issued, rather than enforcement actions that have been rendered final following the opportunity for administrative or judicial review. If a mine operator is placed on POV status, MSHA will thereafter issue an order withdrawing miners from the area affected by any enforcement action designated by MSHA as posing a significant and substantial, or S&S, hazard to the health and/or safety of miners. Further, the mine operator can be removed from POV status only upon: (1) a complete inspection of the entire mine with no S&S enforcement actions issued by MSHA or (2) no POV-related withdrawal orders being issued by MSHA within ninety (90) days following the mine operator being placed on POV status.

Subsequent to passage of the MINER Act, Illinois, Kentucky, Pennsylvania and West Virginia have enacted legislation addressing issues such as mine safety and accident reporting, increased civil and criminal penalties, and increased inspections and oversight; and since January 2012, West Virginia has continued to consider additional mine safety legislation. Other states may pass similar legislation in the future.

Some of the costs of complying with existing regulations and implementing new safety and health regulations may be passed on to our customers. Although we are unable to quantify the full impact, implementing and complying with these new state and federal safety laws and regulations have had, and are expected to continue to have, an adverse impact on our results of operations and financial position.

***Black Lung Benefits Act***

The Black Lung Benefits Act of 1977 and the Black Lung Benefits Reform Act of 1977, as amended in 1981 ("BLBA") requires businesses that conduct current mining operations to make payments of black lung benefits to current and former coal miners with black lung disease and to some survivors of a miner who dies from this disease. The BLBA levies a tax on production of \$1.10 per ton for underground-mined coal and \$0.55 per ton for surface-mined coal, but not to exceed 4.4% of the applicable sales price, in order to compensate miners who are totally disabled due to black lung disease and some survivors of miners who died from this disease, and who were last employed as miners prior to 1970 or subsequently where no responsible coal mine operator has been identified for claims. In addition, BLBA provides that some claims for which coal operators had previously been responsible are or will become obligations of the government trust funded by the tax. The Revenue Act of 1987 extended the termination date of this tax from January 1, 1996, to the earlier of January 1, 2014, or the date on which the government trust becomes solvent. For miners last employed as miners after 1969 and who are determined to have contracted black lung, we self-insure the potential cost of compensating such miners using our actuary estimates of the cost of present and future claims. We are also liable under state statutes for black lung claims. Congress and state legislatures regularly consider various items of black lung legislation, which, if enacted, could adversely affect our business, results of operations and financial position.

Revised BLBA regulations took effect in January 2001, relaxing the stringent award criteria established under previous regulations and thus potentially allowing more new federal claims to be awarded and allowing previously denied claimants to re-file under the revised criteria. These regulations may also increase black lung related medical costs by broadening the scope of conditions for which medical costs are reimbursable and increase legal costs by shifting more of the burden of proof to the employer.

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The Patient Protection and Affordable Care Act ("PPACA") enacted in 2010, includes significant changes to the federal black lung program, retroactive to 2005, including an automatic survivor benefit paid upon the death of a miner with an awarded black lung claim and establishes a rebuttable presumption with regard to pneumoconiosis among miners with 15 or more years of coal mine employment that are totally disabled by a respiratory condition. These changes could have a material impact on our costs expended in association with the federal black lung program.

***Workers' Compensation***

We provide income replacement and medical treatment for work-related traumatic injury claims as required by applicable state laws. Workers' compensation laws also compensate survivors or workers who suffer employment related deaths. Several states in which we operate consider changes in workers' compensation laws from time to time. We generally self-insure this potential expense using our actuary estimates of the cost of present and future claims. For more information concerning our requirement to maintain bonds to secure our workers' compensation obligations, see the discussion of surety bonds below under " *Bonding Requirements.*"

***Coal Industry Retiree Health Benefits Act***

The Federal Coal Industry Retiree Health Benefits Act ("CIRHBA") was enacted to fund health benefits for some United Mine Workers of America retirees. CIRHBA merged previously established union benefit plans into a single fund into which "signatory operators" and "related persons" are obligated to pay annual premiums for beneficiaries. CIRHBA also created a second benefit fund for miners who retired between July 21, 1992 and September 30, 1994, and whose former employers are no longer in business. Because of our union-free status, we are not required to make payments to retired miners under CIRHBA, with the exception of limited payments made on behalf of predecessors of M