ARCH COAL INC
Form S-3/A
February 14, 2001

As filed with the Securities and Exchange Commission on February 14, 2001
Registration No. 333-45198

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 3
TO
FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ARCH COAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	43-0921172
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

CityPlace One, Suite 300
St. Louis, Missouri 63141
(314) 994-2700
(Address, including ZIP code, and telephone number, including area code, of registrant's principal executive offices)

Robert G. Jones
Vice President--Law & General Counsel
Arch Coal, Inc.
CityPlace One, Suite 300
St. Louis, Missouri 63141
(314) 994-2700
(Name, address, including ZIP code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [_]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [_]

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

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price (2)	Amount of registration fee
Common stock, par value $.01 per share.........	8,337,500 shares	$18.12	$151,075,500	$23,446(3)

(1) Includes 1,087,500 shares that the underwriter may purchase to cover over-allotments.

(2) Estimated solely for the purpose of calculating the registration fee; computed in accordance with Rule 457(c) on the basis of the average of the high and low sales prices for the common stock on February 13, 2001 as reported on the New York Stock Exchange.

(3) In accordance with Rule 457(a) and 457(c), amount includes $8,988 paid previously on September 6, 2000 with respect to 4,756,968 shares, $13,156 paid previously on February 8, 2001 with respect to 3,293,032 additional shares and $1,302 with respect to 287,500 additional shares added pursuant to this amendment.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus dated February 14, 2001

PROSPECTUS

7,250,000 Shares

Arch Coal, Inc.

Common Stock

We are selling 2,493,032 shares and an Arch Coal, Inc. stockholder is selling 4,756,968 shares. We are registering the selling stockholder's shares on its behalf.

Our common stock trades on the New York Stock Exchange under the symbol "ACI". On February 13, 2001, the last sale price of the shares as reported on the New York Stock Exchange was $18.03 per share.

Investing in our common stock involves risks that are described in the "Risk Factors" section beginning on page 6 of this prospectus.

	Per Share	Total
Public offering price..................................	$	$
Underwriting discount..................................	$	$
Proceeds, before expenses, to Arch Coal.................	$	$
Proceeds, before expenses, to the selling stockholder....	$	$

The underwriter may also purchase up to an additional 1,087,500 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2001.

Merrill Lynch & Co.

The date of this prospectus is , 2001.

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You should rely only on the information contained or incorporated by reference in this prospectus and in the registration statement filed in connection with this offering and the exhibits to that registration statement. We have not, and the selling stockholder and the underwriter have not, authorized any other person to provide you with different information. We are not, and the selling stockholder and the underwriter are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS SUMMARY

This summary may not contain all the information that may be important to you. You should read the entire prospectus, including the information set forth in "Risk Factors," and all the information incorporated by reference, before making an investment decision. Some of the terms used in this prospectus relating to the coal industry are defined in a glossary beginning on page 61 of this prospectus.

Arch Coal

We are one of the largest coal producers in the United States. We mine, process and market compliance and low-sulfur coal from mines located in both the eastern and western United States, enabling us to ship coal cost-effectively to most of the major domestic coal-fired electric generation facilities. Compliance coal and low-sulfur coal are coals which, when burned, emit 1.2 pounds or less and 1.6 pounds or less of sulfur dioxide per million Btus, respectively. Compliance coal requires no mixing with other coals or use of sulfur dioxide reduction technologies by generators of electricity to comply with the requirements of the federal Clean Air Act. As of December 31, 1999, we controlled approximately 3.5 billion tons of measured and indicated recoverable coal reserves, approximately 2.0 billion tons of which were assigned reserves and approximately 1.5 billion tons of which were unassigned reserves. Assigned reserves are recoverable coal reserves that have been designated to be mined by a specific operation. As of September 30, 2000, we had 28 operating mines. We sold 111.2 million tons of coal in 1999 and 79.4 million tons of coal during the nine months ended September 30, 2000. We sell substantially all of our coal to producers of electric power.

We have a substantial amount of debt relative to our equity capitalization. Our mining operations and coal reserves are inherently subject to changing conditions that can result in fluctuations in our profitability. We sell a significant amount of coal under long-term contracts, which are contracts with a term of greater than 12 months, at above current market prices, the expiration or renegotiation of which could adversely affect our profitability. While coal prices have recently strengthened in all regions, our recent results of operations reflected less favorable coal prices because nearly all of our production was previously committed and priced under earlier weak market conditions. Environmental and regulatory developments have forced us to close a large surface mine in West Virginia. In 1999, we wrote down the value of a portion of our assets in the eastern United States, restructured our operations, and recorded several substantial charges. We believe, however, that we are well-positioned to take advantage of several trends that are positively affecting the coal industry:

- Demand for electricity continues to grow, and coal-fired electric generation facilities currently provide more than 50% of the electric power produced in the United States.

- Coal continues to be the least expensive fuel commonly used in the generation of electricity. Utility deregulation trends are expected to result in increased price competition among generators of electricity, for which the importance of production costs should increase correspondingly.

- Coal-fired electric generation plants operated at an average of 68% of their capacity in 1999. These plants are capable of meeting the demand for more electricity at a low incremental cost.

- The federal Clean Air Act, which provides for phased-in restrictions on the amount of sulfur dioxide that electric generation and other facilities can emit, has caused demand for low-sulfur coal to increase in recent years. Approximately 90% of our reserve base consists of low-sulfur coal, and two-thirds is compliance quality. We currently produce only compliance and low-sulfur coals.

- Demand for coal from the Southern Powder River Basin in Wyoming, which is low in sulfur content and relatively inexpensive to mine, has approximately doubled over the last decade. We control approximately 1.4 billion tons of recoverable coal reserves in the Powder River Basin. Our Black Thunder mine is one of the largest coal mines in the nation, producing at a rate of approximately 60 million tons annually.

We continue to focus on realizing the potential of our assets and maximizing stockholder value by making decisions based upon our five chief financial objectives:

- aggressively paying down our debt,

- further strengthening our cash generation,

- improving our earnings,

- increasing our productivity, and

- reducing our costs.

Our principal executive office is located at CityPlace One, Suite 300, St. Louis, Missouri 63141, and our telephone number is (314) 994-2700.

The Offering

Common stock offered:	
By Arch Coal.......................	2,493,032
By the selling stockholder..........	4,756,968
Total..........................	7,250,000
Shares outstanding after the offering..	40,666,219 shares
Use of Proceeds.......................	We estimate that our net proceeds from this offering without exercise of the over-allotment option will be approximately $42.2 million. We intend to use the net proceeds of this offering to reduce our indebtedness. We will not receive any of the proceeds from the sale of shares by the selling stockholder.
New York Stock Exchange Symbol.........	ACI

Unless otherwise indicated, the information in this prospectus assumes no exercise by the underwriter of its over-allotment option.

The number of shares outstanding immediately after the offering is based upon the number of shares outstanding as of December 31, 2000, and excludes 6,000,000 shares reserved for issuance under our existing stock incentive plans, including 1,594,340 shares issuable upon exercise of options outstanding as of that date at a weighted average exercise price of $19.11 per share.

See "Risk Factors" and the other information included or incorporated by reference in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.

Summary Consolidated Financial and Operating Data

	Year Ended December 31,			Nine Months Ended September 30,	
	1997	1998	1999	1999	2000
	(in thousands, except per share data)			(unaudited)	
Consolidated Statement of Operations Data:					
Total revenues........	$1,066,875	$1,505,635	$1,567,382	$1,194,654	$1,057,243
Income (loss) from operations...........	41,882	87,847	(327,026)	47,325	38,715
Net income (loss).....	30,281	30,013	(346,280)	2,072	(22,350)
Basic and diluted					

earnings (loss) per common share	$ 1.00	$ 0.76	$ (9.02)	$ 0.05	$ (0.59)
Consolidated Operating and Other Data:					
Tons sold	40,525	81,098	111,177	82,728	79,384
Tons produced	36,698	75,817	109,524	80,896	76,112
Adjusted EBITDA	$ 224,646	$ 313,500	$ 325,949	$ 255,130	$ 220,480
Net cash provided from operating activities	$ 190,263	$ 188,023	$ 279,963	$ 195,964	$ 127,257

	As of September 30, 2000
	(in thousands) (unaudited)
Consolidated Balance Sheet Data:	
Total assets	$2,260,480
Working capital	(93,798)
Long-term debt	1,066,216
Other long-term obligations	619,389
Accumulated deficit	(242,400)
Stockholders' equity	212,361

Adjusted EBITDA is income from operations before the effect of changes in accounting principles and extraordinary items; merger-related costs, unusual items, asset impairment and restructuring charges; net interest expense; income taxes; and depreciation, depletion and amortization of Arch Coal and its subsidiaries and its ownership percentage in its equity investments. Adjusted EBITDA should not be considered in isolation nor as an alternative to net income, operating income, cash flows from operations or as a measure of a company's profitability, liquidity or performance under U.S. generally accepted accounting principles.

Information for 1997 reflects our merger with Ashland Coal, Inc. on July 1, 1997 and also reflects a $39.1 million charge in connection with the Ashland Coal merger comprised of termination benefits, relocation costs and costs associated with duplicate facilities.

Information for 1998 reflects the acquisition of Atlantic Richfield Company's domestic coal operations on June 1, 1998. We refinanced our debt in connection with this acquisition, and incurred an extraordinary charge of $1.5 million, net of tax benefit, related to the early extinguishment of debt which existed prior to the acquisition. Income from operations for 1998 reflects pre-tax gains of $41.5 million from the disposition of assets, including $18.5 million on the sale of assets and idle properties in eastern Kentucky and $7.5 million on the sale of our idle Big Sandy Terminal.

The loss from operations for 1999 reflects one-time pre-tax charges of $364.6 million related principally to the write-down of assets at our Dal-Tex, Hobet 21 and Coal-Mac operations and the write-down of other coal reserves in Central Appalachia, and a $23.1 million pre-tax charge related to the restructuring of our administrative workforce and the closure of mines in Illinois, Kentucky and West Virginia. We changed our depreciation method on preparation plants and loadouts during the first quarter of 1999 and recorded a cumulative effect of applying the new method for years prior to 1999, which resulted in a decrease to net loss in 1999 of $3.8 million.

Recent Developments

On January 24, 2001, we reported our preliminary and unaudited financial and operating results for the three months and year ended December 31, 2000, a summary of which follows:

	Three Months Ended December 31, 2000	Year Ended December 31, 2000
	(in thousands, except per share data) (unaudited)	
Consolidated Statement of Operations Data:		
Total revenues................	$347,378	$ 1,404,621
Income from operations........	35,269	73,984
Net income (loss).............	9,614	(12,736)
Basic and diluted earnings (loss) per common share......	0.25	(0.33)
Consolidated Operating and Other Data:		
Tons sold.....................	26,135	105,519
Tons produced.................	23,947	100,060
Adjusted EBITDA...............	$ 94,695	$ 315,175
Net cash provided from operating activities.........	$ 8,515	$ 135,772

	As of December 31, 2000
	(in thousands) (unaudited)
Consolidated Balance Sheet Data:	
Total assets...	$2,232,614
Working capital..	(37,556)
Long-term debt...	1,090,666
Other long-term obligations..............................	606,628
Accumulated deficit......................................	(234,980)
Stockholders' equity.....................................	219,874

Adjusted EBITDA is income from operations before the effect of changes in accounting principles and extraordinary items; merger-related costs, unusual items, asset impairment and restructuring charges; net interest expense; income taxes; and depreciation, depletion and amortization of Arch Coal and its subsidiaries and its ownership percentage in its equity investments. Adjusted EBITDA should not be considered in isolation nor as an alternative to net income, operating income, cash flows from operations or as a measure of a company's profitability, liquidity or performance under U.S. generally accepted accounting principles.

RISK FACTORS

Investing in our common stock will provide you with an equity ownership interest in Arch Coal. As one of our stockholders, your investment will be subject to risks, including risks inherent in our business. The value of your investment could decline and could result in a loss. You should carefully consider the following factors as well as other information contained and incorporated by reference in this prospectus before deciding to invest in our common stock.

We have a substantial amount of debt relative to our equity capitalization, which limits our flexibility and imposes restrictions on us, and a downturn in economic or industry conditions may materially affect our ability to meet our future debt service and liquidity needs.

As of September 30, 2000, we had outstanding consolidated indebtedness of $1.152 billion, representing approximately 84% of our capital employed. As a result, we will have significant debt service obligations, and the terms of our credit agreements limit our flexibility and impose a number of restrictions upon us. We also have significant lease and royalty obligations. Debt service consists of payments of interest and principal. We are required to make aggregate principal payments on our indebtedness of $33.6 million in 2001, $60.5 million in 2002, $1.1 billion in 2003, $0.6 million in each of 2004 and 2005 and $2.9 million, in the aggregate, thereafter. Our ability to satisfy our debt service and lease and royalty obligations, and our ability to effect any refinancing of our indebtedness, will depend upon our future operating performance, which will be affected by prevailing economic conditions in the markets that we serve and financial, business and other factors, many of which are beyond our control. We may be unable to generate sufficient cash flow from operations and future borrowings or other financing may be unavailable in an amount sufficient to enable us to fund our debt service, lease and royalty payment obligations or our other liquidity needs.

Our relative amount of debt could have material consequences to our business, including, but not limited to:

- making it more difficult for us to satisfy our debt covenants and debt service, lease payment and other obligations;

- making it more difficult for us to pay quarterly dividends as we have in the past;

- increasing our vulnerability to general adverse economic and industry conditions;

- limiting our ability to obtain additional financing to fund future acquisitions, working capital, capital expenditures or other general corporate requirements;

- reducing the availability of cash flow from operations to fund acquisitions, working capital, capital expenditures or other general corporate purposes;

- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and

- placing us at a competitive disadvantage when compared to competitors with less relative amounts of debt.

A significant portion of our debt bears interest at variable rates that are linked to short-term interest rates. If interest rates rise, our costs relative to those obligations would also rise.

We have recently experienced operating and net losses, which may continue or reoccur in the future.

We incurred an operating loss of approximately $327.0 million and a net loss of approximately $346.3 million for the year ended December 31, 1999, and a preliminary and unaudited net loss of approximately $12.7 million for the year ended December 31, 2000. The losses in 1999 were primarily attributable to a write-down of the carrying value of some of our operating assets and coal reserves. This adjustment was partially due

to adverse legal and regulatory rulings related to surface mining techniques, as well as persistent negative pricing for Central Appalachian coal production. The losses were also partially attributable to a restructuring of our workforce and the closure of several mines. The loss in 2000 was primarily attributable to the temporary idling of our West Elk mine in Colorado following the detection of combustion gases in a portion of the mine. Because the coal mining industry is subject to significant regulatory oversight, and due to the continuing possibility of negative pricing or other industry trends beyond our control, we may suffer losses in the future if legal and regulatory rulings, mine idlings and closures, negative pricing trends or other factors continue to affect our ability to mine and sell coal profitably.

We may be unable to comply with restrictions imposed by our credit facilities and other debt agreements, which could result in a default under these agreements, enabling lenders to declare amounts borrowed due and payable or otherwise result in unanticipated costs.

The agreements governing our outstanding debt impose a number of restrictions on us. For example, the terms of our credit facilities and leases contain financial and other restrictive covenants that limit our ability to, among other things, complete acquisitions or dispositions and borrow additional funds, and require us to, among other things, maintain various financial ratios and comply with various other financial covenants. Our ability to comply with these restrictions may be affected by events beyond our control and, as a result, we may be unable to comply with these restrictions. A failure to comply with these restrictions could constitute a default under our debt agreements, and any default could lead to defaults under our other debt agreements. In the event of a default, the lenders could terminate their commitments to us and declare all amounts borrowed, together with accrued interest and fees, immediately due and payable. If this were to occur, we might not be able to pay these amounts, or we might be forced to seek an amendment to our debt agreements which could make the terms of these agreements more onerous for us. For example, as of December 31, 1999, we were not in compliance with some covenants contained in our bank credit facilities as a result of a write-down of impaired assets and other restructuring costs. The credit facilities were amended in January 2000, as a result of which we made a one-time payment of $1.8 million, agreed to an interest rate increase of 0.375% on our term loan and revolving credit facility and pledged assets to collateralize our term loan and revolving credit facility, including the stock of some of our subsidiaries and some real property holdings, accounts receivable and inventory. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Credit Facilities" for a more detailed discussion of this amendment to our credit facilities.

An adverse decision in pending litigation could result in the permanent closure of all or a portion of our mining operations in West Virginia, which would cause our profitability to materially decline and could cause our stock price to decline.

A federal district court injunction that prohibits the West Virginia Division of Environmental Protection from issuing permits for our Dal-Tex mine to use valley fill mining techniques resulted in the shutdown of this mine in July 1999. A subsequent order prohibits the construction or expansion of valley fills in West Virginia. Valley fill, or mountaintop, mining techniques used in Central Appalachia involve the creation of large, engineered works into which excess earth and rock extracted during surface mining are placed. The plaintiffs in the litigation alleged, among other things, that the issuance of mining permits without the preparation of an environmental impact statement, or EIS, that would evaluate the environmental effects of mountaintop mining and the construction of valley fills violated environmental laws. We have appealed the order specific to our Dal-Tex operations, and we, the West Virginia Division of Environmental Protection and others have appealed the broader order concerning valley fills. Because it is not financially viable for coal producers to operate some mining properties without valley fills, if the appeals court agrees with the district court, we and other coal producers in West Virginia may be forced to close all or a portion of our mining operations in West Virginia, to the extent those operations are dependent on the use of valley fills. If we permanently close these operations in West Virginia, our profitability will decline because we will record various charges in connection with the closures. We will also experience a loss of revenues from these

operations. For the year ended December 31, 1998, we received approximately $100.8 million in revenues from our Dal-Tex mining operations, which constituted 6.7% of our total 1998 revenues. If the district court decision is overturned, then a settlement agreement entered into between the parties will require the preparation of an EIS prior to the issuance of permits for the construction of valley fills. The preparation of these statements is time-consuming and is sometimes the subject of litigation. As a result, even if the district court decision is overturned, we do not expect to reopen our Dal-Tex mining operation before mid-2001, at the earliest, subject to then-existing market conditions. See "Business--Legal Proceedings--Dal-Tex Litigation" for a more detailed description of the Dal-Tex litigation.

New environmental regulations governing coal-fired electric generating plants could reduce the demand for coal as a fuel source and affect the volume of our sales.

Several new environmental regulations require a reduction in nitrogen oxide emissions generated by coal-fired electric generating plants. Substantially all of our revenues from sales of coal in the year ended December 31, 1999 were from sales to generators operating these types of plants. Enforcement actions against a number of these generators, which include some of our customers, and proposed legislation ultimately may require additional reductions in nitrogen oxide emissions. The Environmental Protection Agency is also considering regulations that would require reductions in mercury emissions from coal-fired electric generating plants. To comply with these regulations and enforcement actions, these generators may choose to switch to other fuels that generate less of these emissions, such as natural gas or oil. In addition, coal has become less attractive as a fuel source to generators considering constructing new electric generating facilities. These developments could cause a material decrease in the volume of our sales. See "The Coal Industry--Clean Air Act" for a more detailed discussion of these regulations.

Because our industry is highly regulated, our ability to conduct mining operations is restricted and our profitability may decline.

Government authorities regulate the coal mining industry on matters as diverse as employee health and safety, air quality standards, water pollution, groundwater quality and availability, plant and wildlife protection, the reclamation and restoration of mining properties, the discharge of materials into the environment and surface subsidence from underground mining. In addition, federal legislation mandates benefits for various retired coal miners represented by the United Mine Workers of America. These regulations and legislation have had, and will continue to have, a significant effect on our costs of production and competitive position. Future regulations, legislation or orders may also cause our sales or profitability to decline by hindering our ability to continue our mining operations or by increasing our costs.

Mining companies must obtain numerous permits that strictly regulate environmental and health and safety matters in connection with coal mining. Regulatory authorities exercise considerable discretion in the timing of permit issuance. Also, private individuals and the public at large possess rights to comment on and otherwise engage in the permitting process, including through intervention in the courts. As described above, we shut down our Dal-Tex mining operation in West Virginia in July 1999 as a result of legal action preventing the issuance of permits necessary for those operations. Accordingly, the permits we need may not be issued, or if issued, may not be issued in a timely fashion, or may involve requirements that may be changed or interpreted in a manner which restricts our ability to conduct our mining operations or to do so profitably.

Our profitability may be adversely impacted by unanticipated mine operating conditions and other factors that are not within our control, which could cause our quarterly or annual results to decrease and our stock price to decline.

Our mining operations are inherently subject to changing conditions that can affect levels of production and production costs at particular mines for varying lengths of time and can result in decreases in our profitability. Weather conditions, equipment replacement or repair, fires, variations in thickness of the layer,

or seam, of coal, amounts of rock and other natural materials and other geological conditions, have had, and can be expected in the future to have, a significant impact on our operating results. For example, we were forced to temporarily idle our West Elk mine in Colorado for more than five months during 2000 following the detection of combustion gases in a portion of the mine. This mine accounted for 7.0% of our total 1999 revenues. As a result of the temporary closure of this mine, we incurred between $4 million and $6 million per month in after-tax losses while the mine was idled. Additional fire-related costs will be incurred in 2001. To date, we have received and recognized an aggregate of $31 million of pre-tax partial insurance payments that cover a portion of the losses incurred at West Elk during 2000. Any additional insurance recovery will depend on resolution of our claim with the insurance carrier, the timing of which is uncertain. In addition, a prolonged disruption of production at any of our principal mines, particularly our Mingo Logan operation in West Virginia, would result in a decrease, which could be material, in our revenues and profitability. Other factors affecting the production and sale of our coal that could result in decreases in our profitability include:

- expiration or termination of, or sales price redeterminations or suspension of deliveries under, coal supply agreements;

- disruption or increases in the cost of transportation services;

- changes in laws or regulations, including permitting requirements;
- litigation;
- the timing and amount of insurance recoveries;
- work stoppages or other labor difficulties;
- mine worker vacation schedules and related maintenance activities; and
- changes in coal market and general economic conditions.

Any adverse impact on our operating results could cause our stock price to decline substantially, particularly if the results are below research analyst or investor expectations.

Intense competition and excess industry capacity in the coal producing regions in which we operate has adversely affected our revenues and profitability and may continue to do so in the future.

The coal industry is intensely competitive, primarily as a result of the existence of numerous producers in the coal producing regions in which we operate, and a number of our competitors have greater financial resources than we do. We compete with approximately six major coal producers in each of the Central Appalachian and Powder River Basin areas. We also compete with a number of smaller producers in those and our other market regions. We are subject to the risk of reduced profitability as a result of excess industry capacity, which has occurred in the past, and which results in reduced prices for our coal.

The demand for and pricing of our coal is greatly influenced by consumption patterns of the domestic electric generation industry, and any reduction in the demand for our coal by this industry may cause our profitability to decline.

Demand for coal and the prices that we will be able to obtain for our coal are closely linked to coal consumption patterns of the domestic electric generation industry, which has accounted for approximately 90% of domestic coal consumption in recent years. These coal consumption patterns are influenced by factors beyond our control, including the demand for electricity, which is significantly dependent upon summer and winter temperatures in the United States, government regulation, technological developments and the location, availability, quality and price of competing sources of coal, alternative fuels such as natural gas, oil and nuclear, and alternative energy sources such as hydroelectric power. Demand for our low-sulfur coal and the prices that we will be able to obtain for it will also be affected by the price and availability of high-sulfur coal,
which can be marketed in tandem with emissions allowances in order to meet federal Clean Air Act requirements. Any reduction in the demand for our coal by the domestic electric generation industry may cause our profitability to decline.

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Deregulation of the electric utility industry may cause our customers to be more price-sensitive in purchasing coal, which could cause our profitability to decline.

Electric utility deregulation is expected to provide incentives to generators of electricity to minimize their fuel costs and is believed to have caused electric generators to be more aggressive in negotiating prices with coal suppliers. To the extent utility deregulation causes our customers to be more cost sensitive, deregulation may have a negative affect on our profitability.

Our profitability may be adversely affected by the renegotiation, termination or expiration of favorable long-term coal supply contracts.

We sell a substantial portion of our coal under long-term coal supply agreements, which are contracts with a term greater than 12 months. As a consequence, we may experience fluctuations in operating results due to the expiration or termination of, or sales price redeterminations or suspensions of deliveries under, these coal supply agreements. In 1999, sales of coal under long-term contracts accounted for approximately 76% of our total revenues. Some of these contracts include pricing which is above, and, in some cases, materially above, current market prices. We currently supply coal under long-term coal supply contracts with one customer which have price renegotiation or modification provisions that take effect in mid-2001. The prices for coal shipped under these contracts are materially above the current market price for similar type coal. For the year ended December 31, 1999, and the nine months ended September 30, 2000, approximately $16.8 million and $15.1 million, respectively, of our operating income related to these contracts. We expect income from operations to be reduced by approximately one-half of the operating income attributable to these contracts in 2001, and by the full amount of this operating income in 2002. These amounts are predicated on current market pricing and will change with market conditions. Some price adjustment provisions permit a periodic decrease in the contract price to reflect decreases in production costs, including those related to technological improvements, changes in specified price indices or items such as taxes or royalties. Price renegotiation or modification provisions may provide for downward adjustments in the contract price based on market factors. We have also renegotiated some contracts to change the contract term or accommodate adverse market conditions such as decreasing coal spot market prices. New nitrous oxide emission limits could also result in price adjustments, or could force electric generators to terminate or modify long-term contracts. Other short- and long-term contracts define base or optional tonnage requirements by reference to the customer's requirements, which may change as a result of factors beyond our, and in some instances, the customer's control, including utility deregulation. If the parties to any long-term contracts with us were to modify, suspend or terminate those contracts, our profitability would decline to the extent that we are unable to find alternative customers at a similar or higher level of profitability.

Because our profitability is substantially dependent on the availability of an adequate supply of coal reserves that can be mined at competitive costs, the unavailability of these types of reserves would cause our profitability to decline.

Our profitability depends substantially on our ability to mine coal reserves that have the geological characteristics that enable them to be mined at competitive costs. Replacement reserves may not be available when required or, if available, may not be capable of being mined at costs comparable to those characteristic of the depleting mines. We have in the past, and will in the future, acquire coal reserves for our mine portfolio from third parties. We may not be able to accurately assess the geological characteristics of any reserves that we acquire, which may adversely affect our profitability and financial condition.

Disruption in or increased costs of transportation services could adversely affect our profitability.

The coal industry depends on rail, trucking and barge transportation to deliver shipments of coal to customers, and transportation costs are a significant component of the total cost of supplying coal. Disruptions of these transportation services could temporarily impair our ability to supply coal to our customers. In

addition, increases in transportation costs, or changes in costs relative to transportation costs for coal produced by our competitors, could adversely affect our profitability.

We face numerous uncertainties in estimating our economically recoverable coal reserves, and inaccuracies in our estimates could result in lower than expected revenues, higher than expected costs and decreased profitability.

The coal reserve information included or incorporated in this prospectus has not been audited by an independent expert. We base our reserve information on geological data assembled and analyzed by our staff, which includes various engineers and geologists. The reserve estimates are annually updated to reflect production of coal from the reserves and new drilling or other data received. There are numerous uncertainties inherent in estimating quantities of recoverable reserves, including many factors beyond our control. Estimates of economically recoverable coal reserves and net cash flows necessarily depend upon a number of variable factors and assumptions, such as geological and mining conditions, which may not be fully identified by available exploration data or may differ from experience in current operations, historical production from the area compared with production from other producing areas, the assumed effects of regulation by governmental agencies and assumptions concerning coal prices, operating costs, severance and excise taxes, development costs and reclamation costs, all of which may vary considerably from actual results.

For these reasons, estimates of the economically recoverable quantities attributable to any particular group of properties, classifications of reserves based on risk of recovery and estimates of net cash flows expected therefrom prepared by different engineers or by the same engineers at different times may vary substantially. Actual coal tonnage recovered from identified reserve areas or properties, and revenues and expenditures with respect to our reserves, may vary from estimates, and these variances may be material. These estimates thus may not accurately reflect our actual reserves.

Defects in title or the loss of any leasehold interests in our properties could limit our ability to mine these properties or result in significant unanticipated costs.

We conduct a significant part of our mining operations on properties that we lease. The loss of any lease could adversely affect our ability to mine the associated reserves. Because title to most of our leased properties and mineral rights is not thoroughly verified until we make a commitment to develop a property, which may not occur until after we have obtained necessary permits and completed exploration of the property, our right to mine some of our reserves has in the past, and may again in the future, be adversely affected if defects in title or boundaries exist. In order to obtain leases or mining contracts to conduct our mining operations on property where these defects exist, we have had to, and may in the future have to, incur unanticipated costs. In addition, we may not be able to successfully negotiate new leases or mining contracts for properties containing additional reserves or maintain our leasehold interests in properties where we have not commenced mining operations during the term of the lease.

Agreements entered into in connection with the acquisition of our reserves and mining facilities in the western United States contain limitations on our ability to manage these operations exclusively and could subject us to significant indemnification obligations.

Our affiliate, Arch Western Resources, LLC, is the owner of our reserves and mining facilities in the western United States. The agreement under which Arch Western was formed provides that one of our subsidiaries, as the managing member of Arch Western, generally has exclusive power and authority to conduct, manage and control the business of Arch Western. However, consent of ARCO, the other member of Arch Western, would generally be required in the event that Arch Western proposes to make a distribution, incur indebtedness, sell properties or merge or consolidate with any other entity if, at that time, Arch Western has a debt rating less favorable than Ba3 from Moody's Investors Service or BB- from Standard & Poor's or fails to meet specified indebtedness and interest ratios.

In connection with the Arch Western acquisition, we entered into an agreement under which we agreed to indemnify ARCO against specified tax liabilities in the event that these liabilities arise as a result of actions taken prior to June 1, 2013, including the sale or other disposition of specified properties of Arch Western, the repurchase of some equity interests in Arch Western by Arch Western or the reduction under some circumstances of indebtedness incurred by Arch Western in connection with the Arch Western acquisition. Depending on the time at which any indemnification obligation were to arise, it could impact our profitability for the period in which it arises.

The membership interests in Canyon Fuel Company, LLC, which operates three coal mines in Utah, are owned 65% by Arch Western and 35% by a subsidiary of ITOCHU Corporation of Japan. The agreement which governs the management and operations of Canyon Fuel provides for a management board to manage the business and affairs of Canyon Fuel. Some major business decisions concerning Canyon Fuel require the vote of 70% of the membership interests and therefore limit our ability to make these decisions. These decisions include admission of additional members, approval of annual business plans, the making of capital expenditures, sales of coal below specified prices, agreements between Canyon Fuel and any member, institution or settlement of litigation, a material change in the nature of Canyon Fuel's business or a material acquisition, the sale or other disposition, including by merger, of assets other than in the ordinary course of business, incurrence of indebtedness, entering into leases, and the selection and removal of officers. The Canyon Fuel agreement also contains restrictions on the transfer of our membership interest in Canyon Fuel.

Our stockholder rights plan and amended charter documents may make it harder for others to obtain control of us even though some stockholders might consider such a development favorable, which may adversely affect our stock price.

In March 2000, we adopted a stockholder rights plan which, together with provisions of our amended and restated certificate of incorporation and our by-laws, may delay, inhibit or prevent someone from gaining control of us through a tender offer, business combination, proxy contest or some other method even if some of our stockholders might believe a change in control is desirable. See "Description of Capital Stock" for a description of our rights plan and these charter and by-law provisions.

FORWARD-LOOKING STATEMENTS

This prospectus includes and incorporates by reference forward-looking statements within the "safe harbor" provision of the Private Securities

Litigation Reform Act of 1995. These statements may generally be identified by the use of words such as "estimate," "expect," "anticipate," "believe," "intend," "plan," "continue," "may," "will," "should," or "shall." We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those projected in these statements, some of which are described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The forward-looking statements contained and incorporated by reference in this prospectus are based on expectations or assumptions, some or all of which may be incorrect. These expectations and assumptions include the following:

- our expectation of continued growth in the demand for electricity;
- our belief that legislation and regulations relating to the Clean Air Act will increase demand for our coal;
- our expectation of improving market conditions for the price of our coal;
- our expectation that we will continue to have adequate liquidity from our cash flow from operations, together with available borrowings under our credit facilities, to finance our working capital needs and meet our debt reduction goals; and
- our expections as to changes in mining rates and costs for a variety of operational, geological, permitting, labor and weather-related reasons, including equipment availability.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $42.2 million, or approximately $60.8 million if the underwriter exercises its over-allotment option in full to purchase 1,087,500 additional shares, based on an assumed offering price of $18.03 per share, and after deducting an assumed underwriting discount and estimated offering expenses payable by us.

We currently intend to use one-half of the net proceeds of this offering to reduce indebtedness under our revolving credit facility and the remainder to reduce indebtedness under our amortizing term loan. The indebtedness to be reduced bears interest at variable rates based on a PNC Bank base rate or LIBOR. The interest rates in effect as of December 31, 2000 were 8.00% and 8.29% on outstanding indebtedness under the revolving credit facility and amortizing term loan, respectively. The indebtedness under both the revolving credit facility and amortizing term loan matures on May 31, 2003.

We will not receive any proceeds from the sale of shares offered by the selling stockholder under this prospectus.

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Our common stock is listed on the New York Stock Exchange. The following table sets forth for the periods indicated the range of high and low sales prices per share of our common stock as reported on the New York Stock Exchange and the cash dividends declared on the common stock for the periods indicated.

	Common Stock Price High	Common Stock Price Low	Dividends
Year Ended December 31, 1999:			
First Quarter	$16.88	$ 9.75	$.1150
Second Quarter	14.81	10.94	.1150
Third Quarter	15.56	11.38	.1150
Fourth Quarter	13.00	8.56	.1150
Year Ended December 31, 2000:			
First Quarter	$11.38	$ 6.50	$.0575
Second Quarter	9.00	4.75	.0575
Third Quarter	11.25	6.94	.0575
Fourth Quarter	14.94	9.38	.0575
Year Ending December 31, 2001:			
First Quarter (through February 13, 2001)	$21.88	$12.88	

On February 13, 2001, the last sale price of our common stock as reported on the New York Stock Exchange was $18.03 per share. On December 31, 2000, there were approximately 12,211 holders of record of our common stock.

The future declaration and payment of dividends and the amount of dividends will depend upon our results of operations, financial condition, cash requirements, future prospects, any limitations imposed by credit agreements or senior securities and other factors deemed relevant by our board of directors. In 2000, we reduced the amount of our dividend payments by 50%. Our board of directors has considered and may again consider further reducing the amount of dividends we pay.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2000 and as adjusted to give effect to the sale of 2,493,032 shares of common stock at an assumed public offering price of $18.03 per share and the application of the net proceeds as described in "Use of Proceeds."

	As of September 30, 2000 (in thousands) (unaudited) Actual	As Adjusted
Total debt	$1,152,216	$ 1,109,976
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, no shares issued and outstanding, actual and as adjusted	--	--
Common stock, $.01 par value, 100,000,000 shares authorized, 38,164,482 issued and outstanding,		

actual; 40,657,514 shares issued and outstanding, as adjusted	397	422
Paid-in capital	473,335	515,550
Accumulated deficit	(242,400)	(242,400)
Treasury stock, at cost	(18,971)	(18,971)
Total stockholders' equity	$ 212,361	$ 254,601
Total capitalization	$1,364,577	$ 1,364,577

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table presents our selected consolidated financial and operating data for, and as of the end of, each of the periods indicated. The selected consolidated financial data for, and as of the end of, each of the years ended December 31, 1997, 1998 and 1999 are derived from our audited consolidated financial statements incorporated by reference in this prospectus. The selected consolidated financial data for, and as of the end of, the nine months ended September 30, 1999 and 2000 are derived from our unaudited consolidated financial statements incorporated by reference in this prospectus, and in the opinion of management, include all adjustments, consisting only of normal recurring accruals, that are necessary for a fair presentation of our financial position and operating results for these periods. The selected consolidated financial and operating data are not necessarily indicative of the results that may be expected for any future period. The selected consolidated financial and operating data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes incorporated by reference in this prospectus.

	Year Ended December 31,			Nine Months Ended September 30,	
	1997	1998	1999	1999	2000
	(in thousands except per share data)				
Statement of Operations Data:				(unaudited)	
Coal sales, equity income and other revenues	$1,066,875	$1,505,635	$1,567,382	$1,194,654	$1,057,243
Costs and expenses:					
Cost of coal sales	916,802	1,313,400	1,426,105	1,071,187	946,617
Selling, general and administrative expenses	28,885	44,767	46,357	33,188	29,611
Amortization of coal supply agreements	18,063	34,551	36,532	28,894	30,790
Merger-related expenses	39,132	--	--	--	--
Write-down of impaired assets	--	--	364,579	--	--
Other expenses	22,111	25,070	20,835	14,060	11,510
Income (loss) from					

operations............	41,882	87,847	(327,026)	47,325	38,715
Interest expense, net...	17,101	61,446	88,767	67,466	68,165
Benefit from income taxes.................	5,500	5,100	65,700	18,400	7,100
Income (loss) before extraordinary loss and cumulative effect of accounting change......	30,281	31,501	(350,093)	(1,741)	(22,350)
Extraordinary loss......	--	(1,488)	--	--	--
Cumulative effect of accounting change......	--	--	3,813	3,813	--
Net income (loss).......	$ 30,281	$ 30,013	$ (346,280)	$ 2,072	$ (22,350)
Balance Sheet Data (at period end):					
Total assets............	$1,656,324	$2,918,220	$2,332,374	$2,748,274	$2,260,480
Working capital.........	40,904	20,176	(54,968)	16,856	(93,798)
Long-term debt, less current maturities.....	248,425	1,309,087	1,094,993	1,181,209	1,066,216
Other long-term obligations............	594,127	657,759	655,166	658,985	619,389
Retained earnings (Accumulated deficit)..	138,676	150,423	(213,466)	139,277	(242,400)
Stockholders' equity....	611,498	618,216	241,295	594,270	212,361
Common Stock Data:					
Basic and diluted earnings (loss) per common share before extraordinary loss and cumulative effect of accounting change......	1.00	0.79	(9.12)	(0.05)	(0.59)
Basic and diluted earnings (loss) per common share...........	1.00	0.76	(9.02)	0.05	(0.59)
Dividends per share.....	0.445	0.46	0.46	0.3450	0.1725
Shares outstanding at period end............	39,658	39,372	38,164	38,463	38,164
Cash Flow Data:					
Cash provided by operating activities...	$ 190,263	$ 188,023	$ 279,963	$ 195,964	$ 127,257
Depreciation, depletion and amortization.......	143,632	204,307	235,658	179,942	153,286
Purchases of property, plant and equipment....	77,309	141,737	98,715	76,078	103,121
Dividend payments.......	13,630	18,266	17,609	13,218	6,584
Adjusted EBITDA.........	224,646	313,500	325,949	255,130	220,480
Operating Data:					
Tons sold..............	40,525	81,098	111,177	82,728	79,384
Tons produced...........	36,698	75,817	109,524	80,896	76,112
Tons purchased from third parties..........	2,906	4,997	3,781	3,257	3,875

Adjusted EBITDA is income from operations before the effect of changes in accounting principles and extraordinary items; merger-related costs, unusual items, asset impairment and restructuring charges; net interest expense; income taxes; and depreciation, depletion and amortization of Arch Coal and its subsidiaries and its ownership percentage in its equity investments. Adjusted EBITDA should not be considered in isolation nor as an alternative to net income, operating income, cash flows from operations or as a measure of a company's profitability, liquidity or performance under U.S. generally accepted accounting principles.

Information for 1997 reflects our merger with Ashland Coal, Inc. on July 1, 1997 and also reflects a $39.1 million charge in connection with the Ashland Coal merger comprised of termination benefits, relocation costs and costs associated with duplicate facilities.

Information for 1998 reflects the acquisition of Atlantic Richfield Company's domestic coal operations on June 1, 1998. We refinanced our debt in connection with this acquisition, and incurred an extraordinary charge of $1.5 million, net of tax benefit, related to the early extinguishment of debt which existed prior to the acquisition. Income from operations for 1998 reflects pre-tax gains of $41.5 million from the disposition of assets, including $18.5 million on the sale of assets and idle properties in eastern Kentucky and $7.5 million on the sale of our idle Big Sandy Terminal.

The loss from operations for 1999 reflects one-time pre-tax charges of $364.6 million related principally to the write-down of assets at our Dal-Tex, Hobet 21 and Coal-Mac operations and the write-down of other coal reserves in Central Appalachia, and a $23.1 million pre-tax charge related to the restructuring of our administrative workforce and the closure of mines in Illinois, Kentucky and West Virginia. We changed our depreciation method on preparation plants and loadouts during the first quarter of 1999 and recorded a cumulative effect of applying the new method for years prior to 1999, which resulted in a decrease to net loss in 1999 of $3.8 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We were originally organized as Arch Mineral Corporation in 1969. On July 1, 1997, Ashland Coal, Inc. then a majority-owned subsidiary of Ashland Inc., merged with a subsidiary of our company. A total of 18,660,054 shares of our common stock were issued in the merger, resulting in a total purchase price, including the fair value of stock options and transaction-related fees, of approximately $464.8 million. In connection with the merger, we changed our name to Arch Coal, Inc. Immediately prior to the merger, Ashland beneficially owned common stock representing approximately 57% of the voting power of Ashland Coal and approximately 51% of our voting stock. Immediately after the merger, Ashland owned approximately 54% of our outstanding common stock, which ownership increased to 58% as of June 1999, when Ashland announced an interest in exploring strategic alternatives for its interest in our company. Ashland retained its stake in our company until its March 2000 distribution of approximately 17.4 million shares of our common stock to Ashland's stockholders after which Ashland owned approximately 12.4% of our outstanding common stock.

On June 1, 1998, we acquired the United States coal operations of Atlantic Richfield Company for an aggregate of approximately $1.14 billion in cash and combined these operations with our western operations in a new joint venture named Arch Western Resources, LLC. We own 99% of this joint venture and

ARCO owns the remaining 1% interest. The principal operating units of Arch Western are Thunder Basin Coal Company, L.L.C., owned 100% by Arch Western, which operates a coal mine in the Southern Powder River Basin in Wyoming; Mountain Coal Company, L.L.C., owned 100% by Arch Western, which operates a coal mine in Colorado; Canyon Fuel Company, LLC, 65% owned by Arch Western and 35% owned by ITOCHU Coal International Inc., a subsidiary of ITOCHU Corporation, which operates three coal mines in Utah; and Arch of Wyoming, LLC, owned 100% by Arch Western, which operates two coal mines in the Hanna Basin of Wyoming.

Excluding our Canyon Fuel joint venture, the results of which we account for under the equity method of accounting, we sold approximately 111.2 million tons of coal in 1999, 107.1 million tons of which we produced and the balance of which we purchased for resale through contractual arrangements. We sold approximately 82% of this tonnage under long-term contracts, which are contracts of greater than one year, and the balance on the spot market. We derived approximately 76% of 1999 total revenues from sales of coal under long-term contracts. Our sales of steam coal, which is coal used in steam boilers to produce electricity, in 1999 totaled 108.7 million tons, or approximately 98% of 1999 coal sales, while sales of metallurgical coal, which is coal suitable for distillation into carbon in connection with the production of steel, in 1999 totaled 2.5 million tons, or approximately 2% of 1999 coal sales. In 1999, sales of coal in the export market totaled approximately 3.5 million tons. Sales of steam coal accounted for approximately 59% of these export sales, while the balance of export sales consisted of sales of metallurgical coal.

Our mining operations are inherently subject to changing conditions that can affect levels of production and production costs at particular mines for varying lengths of time and result in fluctuations in our profitability. Weather conditions, equipment replacement or repair, fires, variations in coal seam thickness, amounts of overburden, rock and other natural materials and other geological conditions, have had, and can be expected in the future to have, a significant impact on our operating results. For example, we were forced to temporarily idle our West Elk mine in Colorado for more than five months during 2000 following the detection of combustion gases in a portion of the mine. The temporary closure of this mine adversely affected our operating results in 2000. A prolonged disruption of production at any of our principal mines, particularly our Mingo Logan operation in West Virginia, would have a material adverse effect on us. Other factors affecting the production and sale of our coal that can result in fluctuations in our profitability include the following:

- expiration or termination of, or sales price redeterminations or suspension of deliveries under, coal supply agreements;

- disruption or increases in the cost of transportation services;

- changes in laws or regulations, including permitting requirements;

- litigation;

- work stoppages or other labor difficulties; and

- changes in coal market and general economic conditions.

Outlook

West Elk Mine.

On July 12, 2000, we resumed production at our West Elk underground mine in Gunnison County, Colorado, and, after experiencing geological conditions unrelated to the fire that have hindered production, the mine returned to normal levels of production during the fourth quarter of 2000. West Elk had been idle since January 28, 2000, following the detection of combustion-related gases in a portion of the mine. We incurred between $4 million and $6 million per month in after-tax losses while the mine was idled. Additional fire-related costs were incurred at the West Elk mine following the resumption of mining activities and will continue to be incurred in 2001 as we reclaim drilling sites and roads and eventually dismantle pumping equipment. To date, we have received and recognized aggregate pre-tax partial insurance payments of $31 million that cover a portion of the losses incurred at West Elk during 2000. We expect to receive additional insurance payments under our property and business interruption policy. Any additional recovery, however, will depend on resolution of our claim with the insurance carrier, the timing of which is uncertain.

West Virginia Operations.

On October 20, 1999, the U.S. District Court for the Southern District of West Virginia permanently enjoined the West Virginia Division of Environmental Protection (DEP) from issuing any permits that authorize the construction of valley fills as part of coal mining operations. The West Virginia DEP complied with the injunction by issuing an order banning the issuance of permits for the construction of nearly all new valley fills and the expansion of nearly all existing valley fills. On October 29, 1999, the district court granted a stay of its injunction, pending the outcome of an appeal of the court's decision filed by the West Virginia DEP with the U.S. Court of Appeals for the Fourth Circuit. The West Virginia DEP rescinded its order in response to the stay granted by the court. We cannot predict the outcome of the West Virginia DEP's appeal to the Fourth Circuit. If, however, the district court's ruling is not overturned or if a legislative or other solution is not achieved, we and other coal producers in West Virginia may be forced to close all or a portion of our mining operations in West Virginia, to the extent those operations are dependent on the use of valley fills.

The injunction discussed above was entered as part of the litigation that caused a delay in obtaining mining permits for our Dal-Tex operation described under "Business--Legal Proceedings--Dal-Tex Litigation". In 1999, we recorded charges for severance and closure costs aggregating $13.8 million with respect to the idling of this operation. As a result of the delay, we idled our Dal-Tex mining operation on July 23, 1999. If all necessary permits are obtained, which is not expected to occur until mid-2001 at the earliest, and the permanent injunction is withdrawn by the Fourth Circuit, then we may determine to reopen the mine subject to then-existing market conditions.

Previously, we had disclosed that longwall mineable reserves at Mingo Logan were likely to be exhausted during 2002. As a result of improvements to the mine plan, we now believe that we can extend longwall mining at that operation for an additional 12 months, which will be well into 2003. Longwall mining is a mining technique in which a rotating drum is pulled mechanically across the face of coal and a hydraulic system supports the roof of the mine while it advances through the coal.

Coal Markets.

Recent developments, including rising natural gas prices, declining coal inventory levels and the recent energy crisis in California, have translated into improved market conditions for coal. As of January 2001, the price of natural gas has more than doubled since December 1999. No domestic nuclear plants are currently in the permitting stage while in September 2000, Wisconsin Electric Power Company announced plans to construct two new coal-fired units with a combined generating capacity of 1,200 megawatts, and in January 2001, UniSource Energy Corp. and Bechtel Power Corp. each announced plans to build 380 megawatt coal-fired units in northern Arizona, and LS Power LLC, an independent power producer, announced plans to build a 1,000 to 1,600 megawatt coal-fired plant in Arkansas, which it anticipates will burn coal from the Powder River Basin. Hydroelectric power conditions are weaker than normal due to dry conditions. Also, since late July, quoted and spot prices for coal produced in the regions in which we operate have risen. However, because most of our production was already committed and priced for 2000, our results for the year reflected the earlier market weakness.

We continue to take steps to match our production levels to market needs. We have ceased production at our Coal Creek surface mine in Campbell County, Wyoming. We also plan to maintain a production level of approximately 60 million tons from our Black Thunder mine near Gillette, Wyoming.

Low-Sulfur Coal Producer.

We continue to believe that we are well-positioned to capitalize on the continuing growth in demand for low-sulfur coal to produce electricity. With Phase II of the Clean Air Act in effect, compliance coal has captured a growing share of United States coal demand and commands a higher price than high-sulfur coals in the marketplace. Compliance coal is coal that meets the requirements of Phase II of the Clean Air Act without the use of expensive scrubbing technology. All of our western coal production and approximately half of our eastern production is compliance quality.

Chief Financial Objectives.

We continue to focus on realizing the potential of our assets and maximizing stockholder value by making decisions based upon our five chief financial objectives: (1) further strengthening our cash generation, (2) improving our earnings, (3) increasing our productivity, (4) aggressively paying down our debt, and (5) reducing our costs. We are aggressively pursuing cost savings which, together with improved productivity, are designed to enable us to achieve our other financial objectives. In addition to the corporate-wide restructuring in late 1999 that we believe will result in a substantial reduction in operating costs for the current and future years, we recently initiated a cost reduction effort targeting key cost drivers at each of our captive mines. We may issue additional equity securities to further pursue our objective of aggressively paying down our debt. We are also exploring Internet-based solutions that could reduce costs, especially in the procurement area.

We repaid $28.8 million of debt during the first nine months of the year and made the second of five annual payments of $31.6 million for the Thundercloud federal reserve lease, despite lower cash generation and increased expenditures related to the idling of the West Elk mine, and a net payment of $31.6 million to purchase assets out of an operating lease. We anticipate continuing to make substantial progress toward reducing debt in the future.

Recent Operating Results

We recently announced our preliminary and unaudited financial and operating results for our fourth quarter and year ended December 31, 2000. Our revenue for the quarter ended December 31, 2000 was $347.4 million, as compared to revenue of $372.7 million in the same period of 1999. Net income for the fourth quarter of 2000, was $9.6 million, as compared to a net loss of $348.4 million in the same quarter of 1999. Coal sales were 26.1 million tons in the fourth quarter of 2000, as compared to 28.4 million tons in the same period of 1999. Fourth quarter 2000 results benefited from a third partial insurance recovery of $7.0 million (pre-tax) related to the January 2000 fire at our West Elk mine in Colorado, a $13.0 million pre-tax gain associated with the settlement of certain workers' compensation liabilities, and a $9.8 million pre-tax gain

resulting from previously unrecognized post-retirement benefit changes which occurred in prior years. Partially offsetting that benefit were the adverse roof conditions at West Elk and higher diesel fuel prices, which together had a negative impact of $14.0 million for the quarter.

Results of Operations

Our results of operations for the years ended 1997, 1998 and 1999 and for the first nine months of 1999 and 2000 are discussed below. Our results of operations for 1997, 1998 and 1999 are not directly comparable because of our July 1, 1997 merger with Ashland Coal and our June 1, 1998 acquisition of ARCO's United States coal operations. Results of operations do not include the activity of Ashland Coal or ARCO's United States coal operations prior to the effective dates of those transactions.

Nine Months Ended September 30, 2000 Compared to Nine Months Ended September 30, 1999.

Net Income (Loss). We incurred a net loss of $22.4 million for the nine months ended September 30, 2000 compared to net income of $2.1 million for the nine months ended September 30, 1999. Results for the nine months ended September 30, 2000 were adversely impacted by the temporary idling of our West Elk mine in Gunnison County, Colorado. The mine was idled from January 28, 2000 to July 12, 2000, following the detection of combustion gases in a portion of the mine. During the nine months ended September 30, 2000, the mine contributed coal sales of $23.1 million and an operating loss of $38.6 million, excluding insurance recoveries, compared to $80.1 million of coal sales and $7.6 million of operating income during the nine months ended September 30, 1999. Offsetting a portion of the loss at the West Elk mine were pre-tax partial insurance payments aggregating $24.0 million received during the nine months ended September 30, 2000 as part of our coverage under our property and business interruption insurance policy. Also, as a result of recent permit revisions at our idle mine properties in Illinois, we reviewed and reduced our reclamation liability at those locations by $7.8 million during the current period. In addition, the Internal Revenue Service issued a notice in 2000 outlining the procedures for obtaining tax refunds on federal excise taxes paid by the industry on export sales tonnage. The notice is a result of a 1998 federal district court decision that found these taxes to be unconstitutional. We recorded $12.7 million of pre-tax income related to these excise tax recoveries during the nine months ended September 30, 2000.

Revenues. Total revenues for the nine months ended September 30, 2000 were $1.057 billion, a decrease of 11.5% from revenues of $1.195 billion for the nine months ended September 30, 1999. Factors contributing to the decrease included reduced sales at our West Elk mine as a result of the temporary idling of that mine, as described above. Also, we closed our Dal-Tex, Wylo and Arch of Illinois operations and two surface mines in Kentucky during the second half of 1999. In addition, production and sales at our Mingo Logan operation decreased 12% and 10%, respectively, in the current period compared to the same period in the prior year. Partially offsetting sales at our closed eastern operations were increased sales at other eastern operations.

We idled the Dal-Tex operation on July 23, 1999 due to a delay in obtaining new mining permits which resulted from legal action in the U.S. District Court for the Southern District of West Virginia, as described under "Business--Legal Proceedings--Dal-Tex Litigation". The Wylo operation ceased production in December 1999 due to the depletion of its recoverable reserves. The Arch of Illinois underground operation, which had remained operative after the closing of the Arch of Illinois surface operations in 1998, was closed in December 1999 due to a lack of demand for the mine's high-sulfur coal. Demand for high-sulfur coal has declined rapidly as a result of the stringent Clean Air Act requirements that are driving a shift to low-sulfur coal. Two small surface mines in Kentucky were closed because their cost structures were not competitive in the then-existing market environment. The resulting decrease in production and sales from our eastern operations was partially offset by increased production and sales at our Black Thunder mine in Wyoming. As a result, on a per-ton-sold basis, our average selling price of $12.72 during the first nine months of 2000 reflected a decrease of $1.23 from the same period in the prior year primarily as a result of the continuing increase in

coal sales from our western operations. Western coal, especially Powder River Basin coal, has a significantly lower average sales price than that of eastern coal, but is also significantly less costly to mine.

Income from Operations. Excluding the decrease in income from operations resulting from the temporary idling of the West Elk mine, the partial insurance payments, the reclamation liability adjustment at Arch of Illinois and the excise tax recoveries, income from operations decreased $7.0 million for the nine months ended September 30, 2000 when compared to the same period in the prior year. The decrease was attributable to low sales relating to difficult market conditions in United States coal markets during the period along with increased fuel costs of over $1.0 million per month compared to the same period in 1999, resulting from higher diesel fuel and oil prices. Income from operations also declined at our Mingo Logan longwall operation where, despite the contribution of $30.0 million to our income from operations, results were below the $40.9 million of income from operations for the nine months ended September 30, 1999. The decrease was primarily caused by depressed coal prices, generally less favorable mining conditions and increased mine development expenses associated with the start-up of operations in the Alma seam in preparation for moving longwall equipment into the newly developed seam in early 2001. Partially offsetting the decrease in income from operations was improved performance at several of our other mines caused in part by our continued focus on reducing costs and improving productivity and reduced costs during the nine months ended September 30, 2000 resulting from the closure of the Dal-Tex operation in July 1999. The Dal-Tex complex incurred production shortfalls, deterioration of mining conditions and resulting lower operating income prior to its closing on July 23, 1999. As a result of the closing, we recorded a charge of $6.5 million through the third quarter of 1999, consisting principally of severance costs, obligations for non-cancelable lease payments and a change in the reclamation liability. Other factors that affected period to period comparisons were several sales of surplus land which resulted in a gain of $8.4 million during the current period. During the nine months ended September 30, 1999, we sold a dragline at the Arch of Illinois operation, resulting in a gain of $2.5 million, and also had settlements with two suppliers that added $4.5 million to the prior period results.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased $3.6 million from the nine months ended September 30, 1999. The decrease was attributable to cost savings resulting from the restructuring of our administrative workforce that occurred during the fourth quarter of 1999, partially offset by higher legal and consulting expenses incurred during the second quarter of 2000.

Adjusted EBITDA. Adjusted EBITDA was $220.5 million for the nine months ended September 30, 2000 compared to $255.1 million for the nine months ended September 30, 1999. The decrease in adjusted EBITDA was primarily attributable to the continued negative impact of the temporary idling of our West Elk mine, excluding insurance recoveries, and lower operating profit at the Mingo Logan operation. This was partially offset by improved performance at our Black Thunder mine and the impact of the partial insurance payments due to the idling of the West Elk mine.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998.

Net Income (Loss). We incurred a net loss in 1999 of $346.3 million compared to net income of $30.0 million in 1998. Results for 1999 included operating results of the Arch Western operations for the entire year, whereas results for 1998 only included results of the Arch Western operations from June 1, 1998, including a 65% share of Canyon Fuel income, net of purchase accounting adjustments.

The decrease in 1999 was primarily the result of several one-time charges. During the fourth quarter of 1999, we determined that significant changes were necessary in the manner and extent to which a portion of our Central Appalachia coal assets would be deployed. The changes were necessitated by the adverse legal and regulatory rulings related to surface mining techniques as well as continued negative pricing trends related to Central Appalachian coal production. In accordance with applicable accounting pronouncements, we evaluated the recoverability of our active mining operations and our coal reserves for which no future mining plans exist. This evaluation indicated that the future undiscounted cash flows of three mining operations, Dal-Tex, Hobet 21

and Coal-Mac, and coal reserves with no future mining plans were below their carrying value. Accordingly, during the fourth quarter of 1999, we adjusted the operating assets and coal reserves to their estimated fair value of approximately $99.7 million, resulting in a non-cash impairment charge of $364.6 million, including $50.6 million relating to operating assets and $314.0 million relating to coal reserves. The estimated fair value of the three mining operations was based on anticipated future cash flows discounted at a rate commensurate with the risk involved. The cash flow assumptions used in this determination are consistent with our future plans for those operations and consider the impact of inflation on coal prices and operating costs which are expected to offset each other. The value of the coal reserves with no future mining plans was based upon the fair value of these properties to be derived from subleased operations. We do not expect the impairment charge to have a material impact on our operating results subsequent to 1999.

During 1999, we also recorded pre-tax charges totaling $23.1 million related to the restructuring of our administrative workforce, the closure of our Dal-Tex mine in West Virginia, and the closure of several mines at our Coal-Mac complex in Kentucky and the remaining underground mine at our Arch of Illinois complex. Of the $23.1 million charge, $20.3 million was recorded in cost of coal sales, $2.3 million was recorded in selling, general and administrative expenses and $0.5 million was recorded in other expenses in our consolidated statements of operations.

During 1999, we also recorded a $112.3 million valuation allowance for a portion of our deferred tax assets that we believe, more likely than not, will not be realized. Prior to the year ended December 31, 1999, our internal forecast of book and taxable income provided sufficient anticipated future taxable income to recognize deferred tax assets in full. However, a combination of factors arising during 1999 resulted in a determination that, as of December 31, 1999, a valuation allowance of $112.3 million was appropriate, including: (a) the significant increase in the amount of our gross tax assets attributable to temporary differences arising from the 1999 impairment charge and (b) unfavorable adjustments to forecasted future income attributable to (i) the effect of the Dal-Tex litigation on future mountain top mining activities in West Virginia and (ii) persistent negative trends in prices for our compliance coal.

Effective January 1, 1999, we changed our method of depreciation on preparation plants and loadouts from a straight-line basis to a units-of-production basis, which is based upon units produced, subject to a minimum level of depreciation. These assets are usage-based and their economic lives are typically based and measured on coal processed by the assets. We believe the units-of-production method is preferable to the method previously used because the new method recognizes that depreciation of this equipment is related substantially to physical wear due to usage as well as the passage of time. This method recovers production costs over the lives of the preparation plants and loadouts with coal sales revenue and results in a better matching of the cost of the physical assets to the periods in which the assets are consumed. The cumulative effect of applying the new depreciation method for years prior to 1999 was an increase to income of $3.8 million.

Revenues. Total revenues of $1.567 billion for 1999 were 4.1% higher than revenues for 1998, primarily as a result of including a full year of operating results from the Arch Western operations in 1999, which accounted for approximately $406.7 million of our revenues in 1999 compared to only seven months of operating results from the Arch Western operations in 1998, which accounted for approximately $228.5 million of our revenues in 1998. Revenues were also favorably impacted by increased production and sales at our Samples mine. The increase was partially offset by reduced production and sales at our Dal-Tex and Wylo operations, both located in Central Appalachia, and our Arch of Illinois surface mining operation. The Wylo operations and Arch of Illinois surface operations ceased production in December 1999 and June 1998, respectively, due to the depletion of their recoverable coal reserves. We idled the Dal-Tex operation on July 23, 1999 due to a delay in obtaining new mining permits which resulted from legal action in the U.S. District Court for the Southern District of West Virginia. On a per-ton-sold basis, our average selling price of $13.58 during 1999 reflected a decrease of $4.03 from 1998, primarily because of the inclusion of the Arch Western

operations for all of 1999 compared to only seven months during 1998. Western coal, especially Powder River Basin coal, has a significantly lower average sales price than that of eastern coal, but is also significantly less costly to mine.

Income from Operations. Excluding the one-time charges discussed above, income from operations decreased $27.2 million despite the inclusion of the Arch Western operations for the entire year compared to only seven months in 1998. Net gains on the disposition of assets were $7.5 million in 1999 compared to $41.5 million in 1998. The gain in 1998 included a pre-tax gain of $18.5 million on the sale of assets and idle properties in eastern Kentucky and a pre-tax gain of $7.5 million on the sale of our idle Big Sandy Terminal. The operating results in 1999 also included pre-tax gains of $5.0 million related to settlements with various suppliers. Operating results in 1999 were negatively affected by production shortfalls, generally less favorable mining conditions and lower operating income from our idled Dal-Tex mine complex. Operating results were also negatively affected in 1999 at Mingo Logan, where, despite a contribution of $46.6 million of operating income, results were significantly below the $77.8 million contributed to income from operations in 1998. The decrease was primarily caused by depressed coal prices, generally less favorable mining conditions and increased mine development expenses associated with the start-up of mining in the Alma seam during 1999. The Mountaineer Mine contributed 12% and 15% of our coal sales revenues in 1999 and 1998, respectively. During the first half of 1999, we continued to experience production shortfalls and operating challenges at our Black Thunder mine in Wyoming due to geological, water drainage and equipment sequencing problems. The negative impacts discussed above were partially offset by lower operating losses in 1999 at the Arch of Kentucky operation compared to 1998. The Arch of Kentucky operation was shut down in January 1998. Results during 1998 were impacted by the costs associated with the shut down of that operation.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $1.6 million primarily due to the inclusion of the Arch Western operations for the entire year compared to only seven months in 1998, the restructuring charge discussed above and additional legal and other expenses related to surface-mining issues in West Virginia.

Amortization. Sales contract amortization increased $2.0 million primarily from the inclusion of a full year of the Arch Western operations compared to seven months in 1998.

Interest Expense. Interest expense increased $27.9 million due to the increase in debt associated with the June 1998 Arch Western acquisition.

Income Taxes. The income tax benefit recorded in 1999 resulted from the pre-tax loss, offset by the valuation allowance recorded against our deferred tax assets. We believe that taxable income will be generated by us in future periods that is consistent with historical income levels and will, more likely than not, permit the realization of the net deferred tax assets remaining at December 31, 1999. We expect to recognize part of the benefit of our deferred tax asset at the alternative minimum tax rate of approximately 24%. Our effective tax rate is sensitive to changes in annual profitability and percentage depletion.

Adjusted EBITDA. Adjusted EBITDA was $325.9 million for 1999 compared to $313.5 million for 1998. The increase in adjusted EBITDA is primarily attributable to an inclusion of an entire year of Arch Western operations in our financial results compared to only seven months in 1998.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997.

Net Income. Net income for 1998 was $30.0 million compared to $30.3 million for 1997. The 1998 results included a full year of operating results from the former Ashland Coal operations, whereas 1997 included only six months of results from those operations. In addition, 1998 included results of the Arch Western operations from June 1, 1998, including a 65% share of Canyon Fuel income, net of purchase accounting adjustments.

Revenues. Total revenues of $1.506 billion for 1998 increased 41% from 1997 as a result of the inclusion of a full year of results from the former Ashland Coal operations in 1998 and seven months of operating results from the Arch Western operations, including income from our equity investment in Canyon

Fuel. On a per-ton-sold basis, however, our average selling price decreased by $7.93, primarily because of the inclusion of the Arch Western operations. Western coal, especially Powder River Basin coal, has a significantly lower average sales price than that of eastern coal, but is also significantly less costly to mine. Selling prices in 1998 were also affected by adverse market conditions in the western United States and export markets, as well as by reduced seasonal demand caused by unusually warm winter weather.

Income from Operations. Net income for 1998 approximated that for 1997 despite the Arch Western acquisition and the inclusion of a full year of results in 1998 from the former Ashland Coal operations. Operating results were favorably impacted in 1998 by increased production from our Mingo Logan longwall operation. This positive result was offset, in part, by production shortfalls, deterioration of mining conditions and resulting lower net income contributions from our Dal-Tex and Hobet mining complexes in Central Appalachia and the June 1998 closure of our large surface operation in Illinois as a result of reserve depletion. In particular, as a result of the continued delay in receiving new mining permits because of the Dal-Tex litigation, the Dal-Tex operation was forced to operate in less favorable mining areas with higher overburden ratios and lower productivity, resulting in higher production costs. Our 1998 results were also significantly impacted by operating difficulties at the Arch Western operations. We experienced production shortfalls and operating challenges at our Black Thunder mine in Wyoming due to geological, water drainage and equipment sequencing problems and substantial transportation delays at our West Elk mine in Colorado. In addition, Canyon Fuel experienced difficult geological conditions at its Skyline Mine. Other items adversely affecting 1998 results, as compared to 1997 results, included the expiration of an above-market-price long-term coal supply contract with Georgia Power in December 1997, reduced shipments under another above-market-price long-term coal supply contract in 1998, the completion in 1997 of a $10.8 million annual accretion of a 1993 unrecognized net gain related to pneumoconiosis, or black lung, liabilities, and a net increase in reclamation costs of $4.9 million in 1998 compared to a benefit in 1997 of $4.4 million resulting from an adjustment of our reclamation liability. Operating results in 1998 included gains from the disposition of assets of $41.5 million compared to $4.8 million in 1997. The gain in 1998 included pre-tax gains of $18.5 million on the sale of assets and idle properties in eastern Kentucky and $7.5 million on the sale of our idle Big Sandy Terminal. Results for 1997 were also affected by a one-time charge of $23.8 million, net of a tax benefit of $15.3 million, related to the Ashland Coal merger.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $15.9 million primarily due to the effects of the Ashland Coal merger and the Arch Western acquisition.

Amortization. As a result of the amortization of the carrying value of the sales contracts acquired in the Ashland Coal merger and the Arch Western acquisition, amortization of coal supply agreements increased $16.5 million.

Interest Expense. Interest expense increased $44.4 million due to the increase in debt as a result of the Arch Western acquisition.

Extraordinary Item. During 1998, we incurred an extraordinary charge of $1.5 million, net of a tax benefit of $0.9 million, related to the early extinguishment of debt in connection with the refinancing of our debt in connection with the Arch Western acquisition.

Adjusted EBITDA. Adjusted EBITDA was $313.5 million for 1998 compared to $224.6 million for 1997. The increase in adjusted EBITDA is primarily attributable to the Ashland Coal merger and the Arch Western acquisition.

Liquidity And Capital Resources

We have generally satisfied our working capital requirements and funded our capital expenditures and debt-service obligations with cash generated from operations. We believe that cash generated from operations and our borrowing capacity will be sufficient to meet our working capital requirements, anticipated capital expenditures and scheduled debt payments for at least the next several years. Our ability to satisfy our debt service obligations, to fund planned capital expenditures, to make acquisitions and to pay dividends will depend upon our future operating performance, which will be affected by prevailing economic conditions in the coal industry and financial, business and other factors, some of which are beyond our control.

Cash Flows.

The following is a summary of cash provided by or used in each of the indicated types of activities for the periods presented.

	Year Ended December 31,			Nine Months Ended September 30,	
	1997	1998	1999	1999	2000
	(dollars in thousands)				
Cash provided by (used in):				(unaudited)	
Operating activities...	$ 190,263	$ 188,023	$ 279,963	$ 195,964	$ 127,257
Investing activities...	(80,009)	(1,271,371)	(84,358)	(65,342)	(106,978)
Financing activities...	(114,793)	1,101,585	(219,736)	(153,896)	(22,009)

Cash provided by operating activities decreased in the nine months ended September 30, 2000 compared to the same period in 1999 due to a decrease in cash provided from equity investments, and reduced cash from sales, increased costs resulting from the temporary idling of the West Elk mine and increased fuel costs. These were partially offset by increased receivable collections and an increase in accounts payable and accrued expenses in the nine months ended September 30, 2000 when compared to the prior year's period. The decrease in cash provided from equity investments results primarily from the amendment in the prior year of a coal supply agreement with the Intermountain Power Agency, which was a significant portion of the $72.8 million cash distribution from Canyon Fuel to us during the nine months ended September 30, 1999. Cash provided by operating activities increased substantially during 1999 compared to 1998 primarily as a result of a full year of operations from our Arch Western mines in 1999 compared to only seven months of operations in 1998. The slight decrease in cash provided by operating activities from 1997 to 1998 was principally due to increased interest expense as a result of increased borrowings associated with the Arch Western acquisition and tax payments related to adjustments to income taxes payable in prior years. The decrease was partially offset by increased operating activity resulting from the Arch Western acquisition.

Cash used in investing activities increased in the nine months ended September 30, 2000 compared to the same period in 1999 primarily as a result of making the second of five annual $31.6 million payments under the Thundercloud federal lease which is related to the Black Thunder mine in Wyoming. The first payment was made at the time of the acquisition of the lease in 1998.

Subsequent annual payments were made in January 2000 and 2001. The remaining payments are due in January 2002 and 2003. In addition, during the nine months ended September 30, 2000, we purchased all remaining assets under a 1998 sale and leaseback arrangement for $45.0 million. Comparisons between 2000 and 1999 are also affected by the amendment of a coal supply agreement during 1999. The amendment changed the contract terms from above-market to market-based pricing. As a result of the amendment, we received proceeds of $14.1 million from the customer (net of royalty and tax obligations) during the first quarter of 1999. The decrease in cash used in investing activities in 1999 compared to 1998 resulted primarily from the payment of $1.1 billion in cash in connection with the Arch Western acquisition completed in 1998. The Arch Western acquisition was also the reason for the significant increase in cash used for investing activities in 1998 compared to 1997.

Our expenditures for property, plant and equipment were $103.1 million for the nine months ended September 30, 2000, and $98.7 million, $141.7 million and $77.3 million for 1999, 1998 and 1997, respectively. We make capital expenditures to improve and replace existing mining equipment, expand existing mines, develop new mines and improve the overall efficiency of mining operations. We anticipate that these capital expenditures will be funded by available cash and existing credit facilities.

Cash provided by financing activities for the nine months ended September 30, 2000 reflects reduced debt payments in the current period compared to the same period in the prior year. In addition, during the second quarter of 2000, we entered into a sale and leaseback arrangement with respect to certain equipment which resulted in net proceeds of $13.4 million. Dividend payments decreased $6.6 million in the nine months ended September 30, 2000 as compared to the same period in the prior year, resulting from a decrease in shares outstanding, and a reduction in the quarterly dividend from 11.5 cents per share to 5.75 cents per share. The dividend reduction is attributable to our goal to aggressively reduce debt. Cash used in financing activities during 1999 principally reflects debt reduction of $189.1 million. We were able to reduce debt from greater cash flows generated from operations. Cash provided by financing activities in 1998 reflects an increase in borrowings of $1.1 billion associated with the Arch Western acquisition.

Credit Facilities.

In connection with the Arch Western acquisition, we entered into two new five-year credit facilities: a $675 million non-amortizing term loan, or the Arch Western credit facility, and a $900 million credit facility, or the Arch Coal credit facility, including a $300 million fully amortizing term loan and a $600 million revolving credit facility. Borrowings under the Arch Coal credit facility were used to finance the acquisition of ARCO's Colorado and Utah coal operations, to pay related fees and expenses, to refinance existing corporate debt and for general corporate purposes. Borrowings under the Arch Western credit facility were used to fund a portion of a $700 million cash distribution by Arch Western to ARCO, which occurred simultaneously with ARCO's contribution of its Wyoming coal operations and other assets to Arch Western. The $675 million term loan is secured by Arch Western's membership interests in its subsidiaries. We have not guaranteed the Arch Western credit facility. At September 30, 2000, there was $231.0 million available to borrow under our revolving credit facility.

We are exposed to market risk associated with interest rates. At September 30, 2000, our debt included $1.147 billion of floating-rate debt, for which the rate of interest is, at our option, the PNC Bank base rate or a rate based on LIBOR and current market rates for bank lines of credit. To manage this exposure, we enter into interest-rate swap agreements to modify the interest-rate characteristics of outstanding debt. At September 30, 2000, we had interest-rate swap agreements having a total notional value of $755.0 million. These swap agreements are used to convert variable-rate debt to fixed-rate debt. Under these swap agreements, we pay a weighted average fixed rate of 5.75% (before the credit spread over LIBOR) and receive a weighted average variable rate based upon 30-day and 90-day LIBOR. At September 30, 2000, the remaining term of the swap and collar agreements ranged from 23 to 57 months. We accrue amounts to be paid or received under interest-rate swap agreements over the lives of the agreements. These amounts are recognized as adjustments to interest expense over the lives of agreements, thereby adjusting the effective interest rate on our debt. The fair value of the swap agreements are not recognized in the financial statements. Gains and losses on terminations of interest-rate swap agreements are deferred on the balance sheet (in other long-term liabilities) and amortized as an adjustment to interest expense over the remaining term of the terminated swap agreement. All instruments are entered into for other than trading purposes.

Financial covenants contained in our credit facilities consist of a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum net worth test. The leverage ratio requires that we do not permit the ratio of our total indebtedness at the end of any calendar quarter to adjusted EBITDA for the 12 months then ended to exceed a specified amount. The fixed charge coverage ratio requires us to maintain the ratio of our adjusted EBITDA plus lease expense to our interest expense plus lease expense for the 12 months then ended

above a specified amount. The net worth test requires that we do not permit our net worth to be less than a specified amount plus 50% of cumulative net income. At December 31, 1999, as a result of the effect of the write-down of impaired assets and other restructuring costs, we did not comply with the net worth test. At that date, we were required to have a net worth of at least $508.4 million. After giving effect to the write-down of impaired assets and other restructuring costs, our net worth was $241.3 million at that date. We received an amendment to the credit facilities on January 21, 2000 which reset the net worth requirement to $163.0 million at December 31, 1999. These amendments resulted in, among other things, a one-time payment of $1.8 million and an increase in the interest rate of 0.375% associated with our term loan and the revolving credit facility. In addition, the amendments required us to pledge assets to collateralize the term loan and the revolving credit facility, including the stock of some of our subsidiaries, some real property interests, accounts receivable and inventory. We were in compliance with these financial covenants at December 31, 2000.

At September 30, 2000, our debt amounted to $1.152 billion, or 84% of capital employed, compared to $1.181 billion, or 83% of capital employed, at December 31, 1999. Based on our current level of consolidated indebtedness and prevailing interest rates, our debt service obligations, including optional payments associated with the revolving credit facility, for the 12 months ending September 30, 2001 will be approximately $180 million.

We periodically establish uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At September 30, 2000, there were $20.0 million of these agreements in effect, none of which were outstanding.

Lease and Royalty Obligations.

We lease equipment, land and various other properties under non-cancelable long-term leases expiring at various dates. Minimum payments due during the 12 months ending September 30, 2001, under agreements in effect at September 30, 2000, will be approximately $84 million.

Contingencies

Reclamation.

The federal Surface Mining Control and Reclamation Act of 1977 and similar state statutes require that mine property be restored in accordance with specified standards and an approved reclamation plan. Reclamation is the restoration of land and environmental conditions of a mining site after the coal is removed. We accrue for the costs of final mine closure and reclamation over the estimated useful mining life of the property. These costs relate to reclaiming the pit and support acreage at surface mines and sealing portals at deep mines. Other costs of final mine closure common to surface and underground mining are related to reclaiming refuse and water and waste rock or coal sediment mixtures, eliminating sedimentation and drainage control structures and dismantling or demolishing equipment or buildings used in mining operations. We also accrue for significant reclamation that is completed during the mining process prior to final mine closure. The establishment of the final mine closure reclamation liability and other ongoing reclamation liabilities are based upon permit requirements and require various estimates and assumptions, principally associated with costs and productivities.

We review our entire environmental liability periodically and make necessary adjustments, including permit changes and revisions to costs and productivities to reflect current experience. These adjustments are recorded to cost of coal sales. Adjustments included a decrease in the liability of $9.2 million in the nine months ended September 30, 2000. The adjustments occurred principally as a result of recent permit revisions at our idle mine properties in Illinois. Adjustments recorded in the nine months ended September 30, 1999 resulted in a $0.7 million charge to expense. We believe that we are making adequate provisions for all expected reclamation and other associated costs.

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Legal Contingencies.

We are a party to numerous claims and lawsuits with respect to various matters. We provide for costs related to contingencies, including environmental matters, when a loss is probable and the amount is reasonably determinable. We estimate that our probable aggregate loss as a result of claims as of September 30, 2000 is $4.0 million, which amount is included in other noncurrent liabilities on our balance sheet. This amount does not include losses that may be incurred as a result of the temporary or permanent shutdown of the Dal-Tex operations. For a discussion of this litigation, see "Business--Legal Proceedings--Dal-Tex Litigation". We estimate that our reasonably possible aggregate losses from all material litigation that is currently pending could be as much as $0.5 million on a pre-tax basis in excess of the probable loss previously recognized. After conferring with counsel, we believe that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on our consolidated financial condition, results of operations or liquidity. For a more complete discussion of litigation to which we are a party, see "Business--Legal Proceedings."

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BUSINESS

We are one of the largest coal producers in the United States. We mine, process and market compliance and low-sulfur coal from mines located in both the eastern and western United States, enabling us to ship coal cost-effectively to most of the major domestic coal-fired electric generation facilities. As of December 31, 1999, we controlled approximately 3.5 billion tons of measured and indicated recoverable coal reserves, approximately 2.0 billion tons of which were assigned reserves and approximately 1.5 billion tons of which were unassigned reserves. On September 30, 2000, we had 28 operating surface, underground and other mines. We sold 111.2 million tons of coal in 1999 and 79.4 million tons of coal during the nine months ended September 30, 2000. Substantially all of our coal is sold as steam coal to producers of electric power.

Operations

As of September 30, 2000, we operated a total of 28 mines, all located in the United States. Coal is transported from our mining complexes to customers by railroad cars, river barges and trucks. As is customary in the industry, virtually all of our coal sales are made F.O.B. mine or loadout, meaning that customers are responsible for the cost of transporting purchased coal to their facilities. The following tables set forth the location of and a summary of information regarding our principal mining complexes and the recoverable coal reserves associated with these operations.

Mining Complex (Location)	Captive Mines*	Contract Mines*	Mining Equipment(1)	Transportation
Central Appalachia				
Mingo Logan (WV)	U	U(4), S	L, LW, C	NS
Coal-Mac (KY)(5)	S	S	L	CSX
Dal-Tex (WV)(6)	--	--	D, L, S	CSX
Hobet 21 (WV)	S, U	U	D, L, S(7)	CSX
Arch of West Virginia (WV)	S, U	--	D, L, S(8)	CSX
Samples (WV)	S	--	D, L, S(9)	Barge, CSX
Campbells Creek (WV)	--	U(2)	--	Barge
Lone Mountain (KY)	U(2)	--	C	NS
Pardee (VA)	S, U	U	L,C	NS
Western United States				
Black Thunder (WY)	S	--	D, S(10)	UP, BN
Coal Creek (WY)(11)	--	--	--	UP, BN
West Elk (CO)(12)	U	--	LW, C	UP
Skyline (UT)(13)	U	--	LW, C	UP
SUFCO (UT)(13)	U	--	LW, C	UP
Dugout Canyon (UT)(13)	U	--	C(14)	UP
Arch of Wyoming (WY)	S(2)	--	D, S(15)	UP
Midwestern United States				
Arch of Illinois (IL)(16)	--	--	C	UP, IC

S = Surface Mine	D = Dragline	UP = Union Pacific Railroad
U = Underground Mine	L = Loader/Truck	IC = Illinois Central Railroad
	S = Shovel/Truck	BN = Burlington Northern Railroad
	LW = Longwall	NS = Norfolk Southern Railroad
	C = Continuous Miner	CSX = CSX Railroad

Mining Complex (Location)	Tons Produced in 1997(2) (in millions)	Tons Produced in 1998(3) (in millions)	Tons Produced in 1999 (in millions)	Tons Produced in the Nine Months Ended September 30, 2000 (in millions)	Cost(4)/ Book Value As of December 31, 1999 ($ in millions)	Total Assigned Recoverab Reserves (tonna
Central Appalachia						
Mingo Logan (WV)........	4.7	11.0	12.2	8.1	$133/67	22.4
Coal-Mac (KY)(5)........	0.8	1.5	1.0	--	14/4	5.9
Dal-Tex (WV)(6).........	2.5	4.6	2.3	--	10/3	84.2
Hobet 21 (WV)...........	2.0	4.1	5.1	4.2	45/31	88.9
Arch of West Virginia (WV)..................	4.9	5.5	4.7	2.7	120/25	19.6
Samples (WV)............	4.4	4.9	5.9	4.8	115/48	27.5
Campbells Creek (WV)....	0.8	0.9	1.2	1.0	3/1	11.6
Lone Mountain (KY)......	2.0	2.4	2.3	1.7	85/36	60.6
Pardee (VA).............	2.5	1.4	1.7	1.3	34/11	9.3
Arch of Kentucky (KY)...	3.9	--	--	--	--	
Western United States						
Black Thunder (WY)......	--	24.7	50.9	44.7	226/203	1,052.5
Coal Creek (WY)(11).....	--	4.4	11.4	4.2	41/37	238.6
West Elk (CO)(12).......	--	3.9	7.3	1.8	96/71	141.3
Skyline (UT)(13)........	--	2.4	3.8	2.2	N/A	79.6
SUFCO (UT)(13)..........	--	3.7	5.8	4.3	N/A	117.9
Dugout Canyon (UT)(13)..	--	0.2	0.8	0.4	N/A	34.1
Arch of Wyoming (WY)....	2.2	1.3	1.0	0.6	58/4	0.4
Midwestern United States						
Arch of Illinois (IL)(16)..............	4.9	3.5	2.4	--	107/3	20.0
Total................	35.6	80.4	119.8	82.0		2,014.4

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* Amounts in parenthesis indicate the number of captive and contract mines at the mining complex or location. Captive mines are mines which we own and operate on land owned or leased by us. Contract mines are mines which other operators mine for us under contracts on land owned or leased by us.

(1) Reported for captive operations only.

(2) Represents six months production for the mines acquired in the Ashland Coal transaction, including Mingo Logan, Hobet 21, Dal-Tex and Coal-Mac.

(3) Represents seven months production for the mines acquired in the Arch Western transaction, including Black Thunder, Coal Creek, West Elk, Skyline, SUFCO and Dugout Canyon. Skyline, SUFCO and Dugout Canyon are mines operated by Canyon Fuel; production represents 100% for these facilities.

(4) Reflects the cost of plant and equipment, including purchase accounting adjustments.

(5) We idled the two captive mining operations at our Coal-Mac (KY) complex on January 3, 2000 because of the small surface mines' high cost structure

compared to our larger mines.

(6) We idled our mining operations at the Dal-Tex complex on July 23, 1999 due to a delay in obtaining mining permits resulting from legal action in the U.S. District Court for the Southern District of West Virginia. See "Legal Proceedings--Dal-Tex Litigation" for further discussion regarding this legal action.

(7) Utilizes an 83-cubic-yard dragline and a 51-cubic-yard shovel. A dragline is a large machine used in the surface mining process to remove layers of earth and rock covering coal.

(8) Utilizes a 49-cubic-yard dragline, a 43-cubic-yard shovel, a 22-cubic-yard shovel and a 28-cubic-yard loader at the Ruffner Mine.

(9) Utilizes a 118-cubic-yard dragline, two 53-cubic-yard shovels, a 22-cubic-yard hydraulic excavator, three 28-cubic-yard loaders, and one 23 cubic yard loader.

(10) Utilizes 170-cubic-yard, 130-cubic-yard, 90-cubic-yard and 45-cubic-yard draglines and 82-cubic-yard, 60-cubic-yard and 53-cubic-yard shovels.

(11) We idled our mining operations at Coal Creek during the third quarter of 2000 because its cost structure was not competitive in the current market environment.

(12) We temporarily idled our mining operations at West Elk from January 28, 2000 to July 12, 2000 following the detection of higher than normal levels of carbon monoxide in a portion of the mine.

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(13) Mines are operated by Canyon Fuel. Canyon Fuel is an equity investment and its financial statements are not consolidated into our financial statements.

(14) Currently under development, full production projected to begin with the addition of a longwall when market conditions warrant.

(15) Utilizes 76-cubic-yard and 64-cubic-yard draglines at Medicine Bow and a 32-cubic-yard dragline at Seminoe II.

(16) We idled our remaining operations at the Arch of Illinois mining complex and sealed the underground mine in December 1999 due to a lack of demand for the mine's high-sulfur coal. The mining complex was the last of our mining operations in the Midwestern United States.

Coal Reserves

We estimate that we owned or controlled, as of December 31, 1999, approximately 3.5 billion tons of measured and indicated recoverable reserves, approximately 2.0 billion tons of which were assigned reserves and approximately 1.5 billion tons of which were unassigned reserves. Assigned reserves are recoverable coal reserves that have been designated to be mined by a specific operation. Unassigned reserves are recoverable reserves that have not yet been designated for mining by a specific operation. Recoverable reserves include only saleable coal and do not include coal which would remain unextracted, such as for support pillars, and processing losses, such as washery losses. Reserve estimates are prepared by our engineers and geologists and reviewed and updated periodically. Total recoverable reserve estimates and reserves dedicated to mines and complexes change from time to time to reflect mining activities, analysis of new engineering and geological data, changes in reserve holdings and other factors. The following table presents our estimated recoverable coal reserves at December 31, 1999:

Total Recoverable Reserves (tonnage in millions)

Total Recoverable Reserves	Proven	Probable	Sulfur Content (lbs. per million Btus)	Reserve Control	Mining Me