

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 For the Quarterly Period Ended September 30, 2001

OR

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

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

Commission file number 1-13105

ARCH COAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

43-0921172

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

CityPlace One, Suite 300, St. Louis, Missouri 63141  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (314) 994-2700

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days.

Yes X No \_\_\_\_

At November 1, 2001, there were 52,346,873 shares of registrant's common stock  
outstanding.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

ARCH COAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

	September 30, 2001	December 31, 2000
	----- (Unaudited)	-----
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,020	\$ 6,028
Trade accounts receivable	144,929	141,727
Other receivables	33,567	38,540
Inventories	56,569	47,930
Prepaid royalties	2,640	2,262
Deferred income taxes	27,440	27,440
Other	12,936	13,963
	-----	-----
Total current assets	284,101	277,890
	-----	-----
Property, plant and equipment, net	1,408,145	1,430,053
	-----	-----
Other assets		
Prepaid royalties	33,390	17,500
Coal supply agreements	87,506	108,884
Deferred income taxes	201,795	179,343
Investment in Canyon Fuel	160,361	188,700
Other	27,357	30,244
	-----	-----
Total other assets	510,409	524,671
	-----	-----
Total assets	\$ 2,202,655	\$ 2,232,614
	=====	=====
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 105,006	\$ 103,014
Accrued expenses	146,524	152,303
Current portion of debt	90,372	60,129
	-----	-----
Total current liabilities	341,902	315,446
Long-term debt	675,000	1,090,666
Accrued postretirement benefits other than pension	326,526	336,663
Accrued reclamation and mine closure	118,600	118,928
Accrued workers' compensation	79,941	78,593
Accrued pension cost	23,074	19,287
Obligations under capital leases	8,997	11,348
Other noncurrent liabilities	61,178	41,809
	-----	-----
Total liabilities	1,635,218	2,012,740
	-----	-----
Stockholders' equity		
Common stock	527	397
Paid-in-capital	835,325	473,428
Retained deficit	(244,736)	(234,980)
Treasury stock, at cost	(5,048)	(18,971)
Accumulated other comprehensive loss	(18,631)	-
	-----	-----
Total stockholders' equity	567,437	219,874
	-----	-----
Total liabilities and stockholders' equity	\$ 2,202,655	\$ 2,232,614
	=====	=====

See notes to condensed consolidated financial statements.

ARCH COAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues				
Coal sales	\$ 337,246	\$ 343,405	\$ 1,047,502	\$ 1,010,102
Income from equity investment	4,066	3,452	14,372	8,844
Other revenues	11,993	12,432	41,437	38,297
	353,305	359,289	1,103,311	1,057,243
Costs and expenses				
Cost of coal sales	330,196	319,500	992,297	946,617
Selling, general and administrative expenses	8,751	8,951	34,589	29,611
Amortization of coal supply agreements	6,217	11,087	21,378	30,790
Other expenses	4,097	3,900	12,621	11,510
	349,261	343,438	1,060,885	1,018,528
Income from operations	4,044	15,851	42,426	38,715
Interest expense, net:				
Interest expense	(15,128)	(23,172)	(51,208)	(69,287)
Interest income	244	423	3,881	1,122
	(14,884)	(22,749)	(47,327)	(68,165)
Loss before income taxes	(10,840)	(6,898)	(4,901)	(29,450)
Income tax benefit	(2,700)	(1,700)	(3,700)	(7,100)
Net loss	\$ (8,140)	\$ (5,198)	\$ (1,201)	\$ (22,350)
Basic and diluted loss per common share	\$ (0.15)	\$ (0.14)	\$ (0.03)	\$ (0.59)
Weighted average shares outstanding	52,681	38,164	47,404	38,164
Dividends declared per share	\$ 0.0575	\$ 0.0575	\$ 0.1725	\$ 0.1725

See notes to condensed consolidated financial statements.

ARCH COAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	Nine Months Ended September 30,	
	2001	2000
Operating activities		
Net loss	\$ (1,201)	\$ (22,350)
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	132,298	153,286
Prepaid royalties expensed	5,406	5,479
Net gain on disposition of assets	(7,334)	(15,786)
Income from equity investment	(14,372)	(8,844)
Net distributions from equity investment	42,711	17,479
Changes in:		
Receivables	1,771	8,789
Inventories	(8,639)	7,836
Accounts payable and accrued expenses	(3,787)	21,594
Income taxes	(10,339)	(5,771)
Accrued postretirement benefits other than pension	(10,137)	1,104
Accrued reclamation and mine closure	(328)	(14,778)
Accrued workers' compensation benefits	1,348	(8,294)
Other	(3,680)	(12,487)
	-----	-----
Cash provided by operating activities	123,717	127,257
	-----	-----
Investing activities		
Additions to property, plant and equipment	(89,795)	(103,121)
Proceeds from dispositions of property, plant and equipment	8,122	18,942
Additions to prepaid royalties	(21,674)	(22,799)
	-----	-----
Cash used in investing activities	(103,347)	(106,978)
	-----	-----
Financing activities		
Net payments on revolver and lines of credit	(250,423)	(28,777)
Payments on term loan	(135,000)	-
Proceeds from sale and leaseback of equipment	-	13,352
Reductions of obligations under capital lease	(2,351)	-
Dividends paid	(8,554)	(6,584)
Proceeds from sale of stock	380,998	-
Purchase of treasury stock	(5,048)	-
	-----	-----
Cash used in financing activities	(20,378)	(22,009)
	-----	-----
Decrease in cash and cash equivalents	(8)	(1,730)
Cash and cash equivalents, beginning of period	6,028	3,283
	-----	-----
Cash and cash equivalents, end of period	\$ 6,020	\$ 1,553
	=====	=====

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2001  
(UNAUDITED)

Note A - General

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations, but are subject to any year-end adjustments, which may be necessary. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the periods ended September 30, 2001 are not necessarily indicative of results to be expected for the year ending December 31, 2001. Arch Coal, Inc. (the "Company") operates one reportable segment: the production of steam and metallurgical coal from surface and deep mines in the United States, for sale to utility, industrial and export markets. The Company's mines are located in the central Appalachian and western regions of the United States. All subsidiaries (except as noted below) are wholly-owned. Significant intercompany transactions and accounts have been eliminated in consolidation.

Arch Western Resources, LLC ("Arch Western"), a subsidiary of the Company, is 99% owned by the Company and 1% owned by Atlantic Richfield Company ("ARCO"), which merged with a subsidiary of BP Amoco on April 18, 2000. The principal operating units of Arch Western are Thunder Basin Coal Company, L.L.C., owned 100% by Arch Western, which operates one coal mine in the Southern Powder River Basin in Wyoming; Mountain Coal Company, L.L.C., owned 100% by Arch Western, which operates one coal mine in Colorado; Canyon Fuel Company, LLC ("Canyon Fuel"), 65% owned by Arch Western and 35% 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.

The Company's 65% ownership of Canyon Fuel is accounted for on the equity method in the Condensed Consolidated Financial Statements as a result of certain super-majority voting rights in the joint venture agreement. Income from Canyon Fuel is reflected in the Condensed Consolidated Statements of Operations as income from equity investment (see additional discussion in "Investment in Canyon Fuel" in Note D).

Note B - Shareholders' Equity

On February 22, 2001, the Company completed a public offering of 9,927,765 shares of common stock, including the remaining 4,756,968 shares held by its then largest stockholder, Ashland Inc., and 5,170,797 primary and treasury shares issued directly by the Company. The proceeds realized by the Company from the transaction of \$92.9 million after the underwriters' discount and expenses, were used to pay down debt.

On April 12, 2001, the Company filed a Universal Shelf Registration Statement on Form S-3 with the Securities and Exchange Commission. The Universal Shelf allows the Company to offer, from time to time, an aggregate of up to \$750 million in debt securities, preferred stock, depository shares, common stock and related rights and warrants. On May 8, 2001, the Company utilized the shelf registration and completed a public offering of 8,500,000 primary shares of common stock. On May 16, 2001, the underwriters involved in the offering purchased an additional 424,200 shares pursuant to an over-allotment option granted by the Company in connection with the May 8, 2001 offering. The proceeds realized from these transactions after the underwriting discount and expenses were \$279.3 million. These proceeds were used to pay down debt. The Company can still issue an additional \$455.5 million in debt and equity securities under the Universal Shelf.

On September 14, 2001, the Company's Board of Directors approved a stock repurchase plan, under which the Company may repurchase up to 6.0 million of its shares of common stock from time to time. Through September 30, 2001, the Company repurchased 357,200 shares of its common stock pursuant to the plan at an average price of \$14.13 per share. The repurchased shares are being held in the Company's treasury. Future repurchases under the plan will be made at management's discretion and will depend on market conditions and other factors. The Company also recognized proceeds of \$8.8 million from sales of shares through the Company's employee stock option plan during the nine months ended September 30, 2001.

Note C - Adoption of FAS 133, Accounting for Derivative Instruments and Hedging Activities

The Company adopted FAS 133, "Accounting for Derivative Instruments and Hedging Activities", on January 1, 2001. The Company's interest rate swaps are affected by the provisions of FAS 133. The Company enters into interest-rate swap agreements to modify the interest characteristics of outstanding Company debt. The swap agreements essentially convert variable-rate debt to fixed-rate debt. These agreements require the exchange of amounts based on variable interest rates for amounts based on fixed interest rates over the life of the agreement. In accordance with FAS 133, these instruments qualify as a cash flow hedge and are deemed to be effective for the variable-rate debt being hedged. Accordingly, the Company recorded the fair value of the instruments on the balance sheet as an other non-current liability. The Company recorded the unrealized loss, net of tax, in accumulated other comprehensive loss. The adoption of FAS 133 had no impact on the Company's results of operations or cash flows. The effects of adopting FAS 133 and the comprehensive loss effect for the nine months ended September 30, 2001 follow:

	Interest Rate Swaps	Tax Effect	Accumulated Other Comprehensive Loss
	-----	-----	-----
		(in thousands)	
Adoption (January 1, 2001)	\$ (7,910)	\$ 3,085	\$ (4,825)
Other comprehensive loss	(22,834)	9,028	(13,806)
	-----	-----	-----
September 30, 2001	\$ (30,744)	\$ 12,113	\$ (18,631)
	=====	=====	=====

The following table presents total comprehensive loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
	(in thousands)			
Net loss	\$ (8,140)	\$ (5,198)	\$ (1,201)	\$ (22,350)
Other comprehensive loss net of income tax benefit	(5,904)	-	(13,806)	-
	-----	-----	-----	-----
Total comprehensive loss	\$ (14,044)	\$ (5,198)	\$ (15,007)	\$ (22,350)
	=====	=====	=====	=====

Note D - Investment in Canyon Fuel

The following table presents unaudited summarized financial information for Canyon Fuel, which is accounted for on the equity method:

Condensed Income Statement Information	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(in thousands)			
Revenues	\$ 77,060	\$ 55,234	\$ 218,581	\$ 181,112
Total costs and expenses	70,220	50,894	197,052	170,774
Net income	\$ 6,840	\$ 4,340	\$ 21,529	\$ 10,338
65% of Canyon Fuel net income	\$ 4,446	\$ 2,821	\$ 13,994	\$ 6,720
Effect of purchase adjustments	(380)	631	378	2,124
Company's income from its equity investment in Canyon Fuel	\$ 4,066	\$ 3,452	\$ 14,372	\$ 8,844

The Company's income from its equity investment in Canyon Fuel represents 65% of Canyon Fuel's net income after adjusting for the effect of its investment in Canyon Fuel. The Company's investment in Canyon Fuel reflects purchase adjustments primarily related to the reduction in amounts assigned to sales contracts, mineral reserves and other property, plant and equipment.

Note E - Inventories

Inventories consist of the following:

	September 30, 2001	December 31, 2000
	(in thousands)	
Coal	\$ 25,487	\$ 21,185
Repair parts and supplies	31,082	26,745
	\$ 56,569	\$ 47,930

Note F - Debt

Debt consists of the following:

	September 30, 2001	December 31, 2000
	(in thousands)	
Indebtedness to banks under revolving credit agreement, expiring May 31, 2003	\$ 85,000	\$ 332,100
Variable rate term loan payable quarterly	-	135,000
Variable rate term loan due May 31, 2003	675,000	675,000
Other	5,372	8,695
	\$ 765,372	\$ 1,150,795
Less current portion	90,372	60,129
Long-term debt	\$ 675,000	\$ 1,090,666

The Company has two credit facilities: a \$675.0 million, non-amortizing term loan in the name of Arch Western and a revolving credit facility in the name of the Company. The rate of interest on borrowings under both of the credit facilities is based on LIBOR. The Arch Western loan is secured by Arch Western's membership interests in its subsidiaries. It is not guaranteed by the Company. The Company's credit facility initially included both a revolver and a fully amortizing term loan. In February and May 2001, the Company used proceeds from its public stock offerings (See Note B) to retire its term loan with the remainder reducing the then outstanding borrowings under the revolver. Subsequent to such repayments, the Company's revolving credit agreement provides for borrowings of up to \$547.0 million less any outstanding letters of credit. At September 30, 2001, the Company had \$34.5 million in letters of credit outstanding which, when combined with outstanding borrowings under the revolver, allowed for \$427.5 million of additional borrowings under the revolver. The Company also periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At September 30, 2001, there were \$20.0 million of such agreements in effect, of which no borrowings were outstanding. Aggregate required maturities of debt are \$0.3 million for the remainder of 2001, \$0.5 million in 2002, \$760.5 million in 2003, \$0.6 million in 2004, \$0.6 million in 2005 and \$2.9 million thereafter.

Terms of the Company's credit facilities and leases contain financial and other covenants that limit the ability of the Company to, among other things, effect acquisitions or dispositions and borrow additional funds and require the Company to, among other things, maintain various financial ratios and comply with various other financial covenants. In addition, the covenants require the pledging of assets to collateralize the term loan and the Company's revolving credit facility. The assets pledged include equity interests in wholly-owned subsidiaries, certain real property interests, accounts receivable and inventory of the Company. Failure by the Company to comply with such covenants could result in an event of default, which, if not cured or waived, could have a material adverse effect on the Company. The Company was in compliance with these financial covenants at September 30, 2001.

The Company enters into interest-rate swap agreements to modify the interest characteristics of the Company's outstanding debt. At September 30, 2001, the Company had interest-rate swap agreements having a total notional value of \$425.0 million. These swap agreements are used to convert variable-rate debt to fixed-rate debt. Under these swap agreements, the Company pays a weighted-average fixed rate of 6.89% (before the credit spread over LIBOR) and is receiving a weighted-average variable rate based upon 30-day and 90-day LIBOR. At September 30, 2001, the remaining terms of the swap agreements ranged from 11 to 45 months.

#### Note G - Contingencies

The Company is a party to numerous claims and lawsuits with respect to various matters. The Company provides for costs related to contingencies when a loss is probable and the amount is reasonably determinable. After conferring with counsel, it is the opinion of management that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

#### Note H - Changes in Estimates and Other Non-Recurring Revenues and Expenses

The Company's operating results for the nine months ended September 30, 2001 reflect a \$9.4 million insurance settlement as part of the Company's coverage under its property and business interruption policy. The insurance settlement represents the final settlement for losses incurred at the West Elk Mine in Gunnison County, Colorado, which was idled from January 28, 2000 to July 12, 2000 following the detection of combustion-related gases. The nine month period ended September 30, 2000 also reflect a \$24.0 million partial insurance settlement associated with this event, \$12.0 million of which was received during the three months ended September 30, 2000.

During the third quarter of 2001, as a result of estimate changes associated with reclamation, the Company reduced its reclamation liability resulting in a pre-tax gain of \$1.9 million. During the nine months ended September 30, 2001, the Company reduced its reclamation liability resulting in a pre-tax gain of \$5.4 million, of which \$3.5 million was a result of permit revisions at its idle mine properties in Illinois recorded in the first quarter of 2001. Also, as a result of permit revisions at the same property during the nine months ended September 30, 2000, the Company reduced its reclamation liability resulting in a pre-tax gain of \$7.8 million.

During the nine months ended September 30, 2001, as a result of progress in processing claims associated with the recovery of certain previously paid excise taxes on export sales, the Company recognized a pre-tax gain of \$4.6 million. Of the \$4.6 million recognized, \$3.1 million represents the interest component of the claim and was recorded as interest income. The gain stems from an IRS notice during the second quarter of 2000 outlining the procedures for obtaining tax refunds on black lung excise taxes paid by the industry on export sales. The notice was the result of a 1998 federal district court decision that found such taxes to be unconstitutional. The Company recorded \$12.7 million of pre-tax income related to these excise tax recoveries during the nine months ended September 30, 2000.

The Company reduced its stock based benefit program accruals for awards that did not meet minimum performance levels to qualify for a payout which resulted in an increase in pre-tax income of \$4.3 million during the three months ended September 30, 2001. For the nine months ended September 30, 2001, the Company recognized pre-tax charges of \$4.0 million (which is net of the \$4.3 million accrual reduction included in the third quarter of 2001) for stock-based compensation benefit programs that may be realized in future periods as a result of improved stock performance. During the nine months ended September 30, 2001, the Company also recognized reduced interest expense of \$1.7 million primarily associated with the termination of certain interest rate swaps, which did not qualify as hedges under the accounting treatment prescribed by FAS 133, "Accounting for Derivative Instruments and Hedging Activities." During the nine months ended September 30, 2001, Canyon Fuel, the Company's equity method investment, recognized recoveries of previously paid property taxes. The Company's share of these recoveries was \$2.6 million and is reflected as income from equity investment on the Condensed Consolidated Statements of Operations for the nine months ending September 30, 2001. During the three and nine months ended September 30, 2001, the Company sold surplus land resulting in a \$2.9 million and \$6.5 million pre-tax gain, respectively. The Company sold surplus land resulting in a \$3.0 million and \$8.1 million pre-tax gain during the three and nine months ended September 30, 2000, respectively.

Note I - Earnings (Loss) per Share

The following table sets forth the computation of basic and diluted loss per common share from continuing operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(in thousands, except per share data)			
Numerator:				
Net loss	\$ (8,140)	\$ (5,198)	\$ (1,201)	\$ (22,350)
Denominator:				
Weighted average shares - denominator for basic	52,681	38,164	47,404	38,164
Dilutive effect of employee stock options	-	-	-	-
Adjusted weighted average shares - denominator for diluted	52,681	38,164	47,404	38,164
Basic and diluted loss per common share	\$ (.15)	\$ (.14)	\$ (.03)	\$ (.59)

Note J - Subsequent Event

Subsequent to September 30, 2001, the Company sold its interest in mineral reserves containing 16.1 million tons of coal in the Carbon Basin of Wyoming resulting in a \$5.1 million pre-tax gain. In addition, subsequent to September 30, 2001, the Company received a favorable state tax ruling resulting in a \$9.1 million pre-tax gain.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Statements in this quarterly report which are not statements of historical fact are forward-looking statements within the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the information available to, and the expectations and assumptions deemed reasonable by, the Company at the time the statements are made. Because these forward-looking statements are subject to various risks and uncertainties, actual results may differ materially from those projected in the statements. These expectations, assumptions and uncertainties include: the Company's expectation of continued growth in the demand for electricity; belief that legislation and regulations relating to the Clean Air Act and the relatively higher costs of competing fuels will increase demand for its compliance and low-sulfur coal; expectation of continued improved market conditions for the price of coal; expectation that the Company will continue to have adequate liquidity from its cash flow from operations, together with available borrowings under its credit facilities, to finance the Company's working capital needs; a variety of operational, geologic, permitting, labor and weather related factors; and the other risks and uncertainties which are described below under "Contingencies" and "Certain Trends and Uncertainties."

RESULTS OF OPERATIONS

Quarter Ended September 30, 2001, Compared  
to Quarter Ended September 30, 2000

Net Income (Loss). The net loss for the quarter ended September 30, 2001 was \$8.1 million compared to a net loss of \$5.2 million for the quarter ended September 30, 2000. Results for both quarters were adversely impacted by costs associated with major maintenance projects undertaken while mines were idle or operating on reduced schedules due to worker vacations. Results for the current quarter were also negatively impacted by production difficulties and increased costs at the Company's West Elk mine in Gunnison County, Colorado caused by high methane levels and at the Samples surface operation in West Virginia caused by a sandstone intrusion into the coal seam. Partially offsetting these negative items was lower interest expense due to reduced debt levels. Results for the quarter ended September 30, 2001 were positively impacted by the following other items: (1) A \$2.9 million pre-tax gain primarily from the sale of surplus land. (2) An increase of pre-tax income of \$1.9 million caused by a reduction in the Company's reclamation liability due to changes in estimates. (3) A pre-tax \$4.3 million gain from the partial reversal of previously recorded compensation accruals resulting from certain stock based compensation plans not achieving minimum performance targets required for awards. These accruals may fluctuate in future periods based on the plan's future performance.

Results for the quarter ended September 30, 2000, were adversely affected by operating losses incurred at the West Elk mine. The mine was idled on January 28, 2000 to July 12, 2000 following the detection of combustion gases in a portion of the mine unrelated to the high methane levels described above. These operating losses were to some extent offset by an associated partial pre-tax insurance settlement of \$12.0 million under the Company's business interruption policy. Results for the quarter were positively impacted by the sale of surplus land for a \$3.0 million pre-tax gain.

The West Elk mine's coal sales of \$17.5 million in the third quarter of 2001 were \$3.3 million greater than its sales of \$14.2 million in the third quarter of 2000, although the mine experienced significant production difficulties in both quarters as described above. During the third quarter of 1999, a comparable quarter of uninterrupted production, the mine had coal sales of \$25.7 million. Excluding the third quarter of 2000 insurance recovery discussed above, operating losses for the mine for the third quarter of 2001 and 2000 were \$2.3 million and \$4.5 million, respectively, compared to operating income of \$1.2 million during the third quarter of 1999. At the Company's surface operation at its Samples Mine, a sandstone intrusion caused the coal seam to thin which resulted in lower production and higher associated costs. During the third quarter of 2001, the Samples surface operation experienced an operating loss of \$5.6 million compared to operating income of \$2.2 million during the third quarter of 2000.

Income from operations.

The following table presents income from operations excluding unusual items:

	Three Months Ended September 30 (in millions)	
	2001	2000
Income from operations (as reported)	\$ 4.0	\$ 15.9
Losses at the West Elk Mine	2.3	4.5
West Elk mine insurance recoveries	-	(12.0)
Samples surface operation losses	5.6	-
Land sales	(2.9)	(3.0)
Reclamation adjustment	(1.9)	-
Stock based compensation accrual adjustment	(4.3)	-
Adjusted income from operations	\$ 2.8	\$ 5.4

Amortization of Coal Supply Agreements. Amortization of coal supply agreements decreased by \$4.9 million primarily as a result of the expiration and buy-out of above-market contracts that were valued as assets and amortized on the Company's balance sheet in the prior year and by lower shipped volumes on other valued contracts during the third quarter of 2001.

Interest Expense. Interest expense decreased by \$8.0 million primarily due to lower debt levels in the third quarter of 2001 compared to the same quarter of 2000. The net proceeds from two public stock offerings in the first half of 2001 were used to significantly reduce debt levels from the prior year (see additional discussion in Liquidity and Capital Resources).

Income Taxes. The Company's effective tax rate is sensitive to changes in estimates of annual profitability and percentage depletion. The income tax benefit recorded in the three months ended September 30, 2001 is primarily the result of the impact of percentage depletion.

Adjusted EBITDA. Adjusted EBITDA (income from operations before the effect of net interest expense; income taxes; and depreciation, depletion and amortization of the Company, its subsidiaries and its ownership percentage in its equity investments) was \$58.6 million for the current quarter compared to \$76.1 million for the third quarter of 2000. This decrease is primarily attributable to the losses incurred at the Samples surface operation resulting from the sandstone intrusion during 2001 and by insurance recoveries at the West Elk mine in the third quarter of 2000 as described above. EBITDA is a widely accepted financial indicator of a company's ability to incur and service debt, but EBITDA should not be considered in isolation or as an alternative to net income, operating income or cash flows from operations or as a measure of a company's profitability, liquidity or performance under U.S. generally accepted accounting principles. This measure of EBITDA may not be comparable to similar measures reported by other companies, or EBITDA may be computed differently by the Company in different contexts (i.e., public reporting versus computations under financing arrangements).

Nine Months Ended September 30, 2001, Compared  
to Nine Months Ended September 30, 2000

Net Income (Loss). The net loss for the nine months ended September 30, 2001 was \$1.2 million compared to a net loss of \$22.4 million for the nine months ended September 30, 2000. Results for the current period were positively impacted by continuing strong margins on the limited tonnage open to market-based pricing during the early part of 2001 and by reduced interest expense associated with lower debt levels. The current period results were negatively impacted by production difficulties and increased costs at the Company's West Elk mine in Gunnison County, Colorado caused by high methane levels and at the Samples surface operation in West Virginia caused by a sandstone intrusion into the coal seam. Results for the nine months ended September 30, 2001 were also positively impacted by the following other items: (1) A \$9.4 million pre-tax insurance settlement as part of the Company's coverage under its property and business interruption policy. The insurance settlement represents the final settlement for losses incurred for the West Elk mine idling described below. (2) A \$4.6 million pre-tax gain resulting from an IRS notice received during the second quarter of 2000 which outlined the procedures necessary to obtain refunds on black lung excise taxes previously paid on export sales. The notice followed a 1998 federal district court decision that found such taxes to be unconstitutional. Of the \$4.6 million recognized, \$3.1 million represents the interest component of the claim and was recorded as interest income. (3) An increase of pre-tax income of \$5.4 million primarily from a reduction in the amount of expected reclamation work at the Company's idle Illinois properties because of permit revisions. (4) A \$6.5 million pre-tax gain on the sale of surplus land. (5) A \$1.7 million reduction in interest expense primarily associated with the termination of certain interest rate swaps that did not qualify as hedges under the accounting treatment prescribed by FAS 133, "Accounting for Derivative Instruments and Hedging Activities." These items were partially offset by a pre-tax charge of \$4.0 million for stock-based compensation benefits that may be realized in future periods.

Results for the nine months ended September 30, 2000, were adversely impacted by operating losses incurred at the West Elk mine offset to some extent by an associated partial pre-tax insurance settlement of \$24.0 million under the Company's business interruption policy. The mine was idled from January 28, 2000 to July 12, 2000 following the detection of combustion gases in a portion of the mine. These combustion gases are unrelated to the high methane levels experienced at the mine in 2001. Also, as a result of permit revisions at its idle mine properties in Illinois, the Company reduced its reclamation liability which resulted in a pre-tax gain of \$7.8 million. The Company sold surplus land resulting in a \$8.1 million pre-tax gain during the nine months ended September 30, 2000. In addition, the Company recorded a pre-tax gain of \$12.7 million related to excise tax recoveries on export shipments in connection with the IRS notice described above.

The West Elk mine's coal sales for the nine months ended September 30, 2001 of \$51.8 million were \$28.7 million greater than its sales of \$23.1 million in the same period of 2000, although the mine experienced significant production difficulties during both periods as described above. This compares to \$80.1 million of coal sales during the nine months ended September 30, 1999, a period of uninterrupted production. Excluding the impact of the related insurance recoveries, operating losses for the mine for the nine months ended September 30, 2001 and 2000 were \$13.1 million and \$38.6 million, respectively, compared to operating income of \$7.6 million during the nine months ended September 30, 1999. At the Samples surface operation, a sandstone intrusion caused the coal seam to thin which has resulted in lower production and higher associated costs. During the nine months ended September 30, 2001, the Samples surface operation experienced an operating loss of \$9.2 million compared to operating income of \$4.1 million during the same period of 2000.

Revenues. Total revenues for the nine months ended September 30, 2001 were \$1,103.3 million, an increase of \$46.1 million from the nine months ended September 30, 2000. This increase was the result of several factors including the increase in sales at West Elk when compared to the same period in the prior year, improved pricing on the limited tonnage that was open to market-based pricing during the current period, and increased pass through transportation revenues (offset by increased transportation costs in cost of sales).

Income From Equity Investment. During the nine months ended September 30, 2001, Canyon Fuel, the Company's equity method investment, recognized recoveries of previously paid property taxes. The Company's share of these recoveries is \$2.6 million, which is reflected as income from equity investment in the Condensed Consolidated Statements of Operations.

Income from Operations.

The following table presents income from operations excluding unusual items discussed above.

	Nine Months Ended September 30 (in millions)	
	2001	2000
Income from operations (as reported)	\$ 42.4	\$ 38.7
Losses at the West Elk Mine	13.1	38.6
West Elk mine insurance recoveries	(9.4)	(24.0)
Samples surface operation losses	9.2	-
Land sales	(6.5)	(8.1)
Reclamation adjustment	(5.4)	(7.8)
Stock based compensation accrual adjustment	4.0	-
Black lung excise tax recoveries	(1.5)	(12.7)
Canyon Fuel Company property tax recoveries	(2.6)	-
	-----	-----
Adjusted income from operations	\$ 43.3	\$ 24.7
	=====	=====

The increase in income from operations is primarily attributable to improved pricing on the limited coal tonnage that was open to market-based pricing during the current period.

Amortization of Coal Supply Agreements. Amortization of coal supply agreements decreased by \$9.4 million primarily as a result of the expiration and buy-out of above-market contracts that were valued as assets and amortized on the Company's balance sheet in the prior year.

Interest Expense. Interest expense decreased by \$18.1 million primarily as a result of lower debt levels in the nine months ended September 30, 2001 compared to the same period of 2000 and a \$1.7 million reduction in interest expense associated with the termination of certain interest-rate swaps which did not qualify as hedges under the accounting treatment prescribed by FAS 133, "Accounting for Derivative Instruments and Hedging Activities." The net proceeds from two public stock offerings in the first half of 2001 were used to significantly reduce debt levels from the prior year (see additional discussion in Liquidity and Capital Resources).

Interest Income. The increase in interest income of \$2.8 million was primarily due to recognition of the interest component of the black lung excise tax recovery recorded in the second quarter of 2001.

Income Taxes. The Company's effective tax rate is sensitive to changes in estimates of annual profitability and percentage depletion. The income tax benefit recorded for the nine months ended September 30, 2001 is primarily the result of the impact of percentage depletion.

Adjusted EBITDA. Adjusted EBITDA (income from operations before the effect of net interest expense; income taxes; and depreciation, depletion and amortization of the Company, its subsidiaries and its ownership percentage in its equity investments) was \$207.2 million for the nine months ended September 30, 2001 compared to \$220.5 million for the nine months ended September 30, 2000. This decrease is primarily attributable to the losses incurred at the Samples surface operation resulting from the sandstone intrusion during the nine months ended September 30, 2001 and by higher insurance recoveries during the nine months ended September 30, 2000 compared to the same period in 2001 as described above.

#### OUTLOOK

West Elk Mine. The Company's West Elk mine encountered higher-than-expected methane levels following the relocation of its longwall mining system to the eastern section of the mine in late February 2001. The higher methane levels have led to a reduction of planned shipments from the West Elk mine. The mine's performance has steadily improved as the mine has implemented a series of methane control procedures. However, if the Company is unable to continue to adequately control methane levels at the mine, it may be forced to continue to operate the mine at lower levels of production than planned or to idle the mine.

West Virginia Operations. On October 20, 1999, the U.S. District Court for the Southern District of West Virginia permanently enjoined the West Virginia Department 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. The district court then 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. On April 24, 2001, the Court of Appeals vacated the judgment of the district court with respect to the injunction and in October 2001, the plaintiffs in this action filed an appeal of the Court of Appeal's decision with the United States Supreme Court.

The injunction discussed above was entered as part of the litigation that caused a delay in obtaining mining permits for the Company's Dal-Tex operation described under "Contingencies-Legal Contingencies-Dal-Tex Litigation." As a result of the delay, the Company idled its Dal-Tex mining operation on July 23, 1999. If all necessary permits are obtained, the Company may reopen the mine subject to then-existing market conditions.

Previously, the Company 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, the mine is not expected to exhaust its longwall mineable reserves until 2004.

During the second quarter of 2001, the Company's Samples surface mine in southern West Virginia encountered a larger-than-expected sandstone intrusion. The intrusion has resulted in the thinning of the principal coal seam in the ridge that the mine is currently mining. The thinning of the seam has reduced recoverable coal available and driven up mining costs on a per-ton basis. The Company expects the Samples operation to be impacted by the sandstone intrusion through the beginning of 2002. In early 2002, the Samples mine expects to begin development work on a new reserve area with more favorable geology. However, although the Company expects to receive the necessary permits for these reserves before the end of 2001, there can be no assurance that they will be received on a timely basis.

Coal Markets. Although the Company continues to be adversely affected by coal contracts priced during weak market conditions, there have been developments that have translated into improved market conditions for coal. More normal U.S. weather temperatures since late 2000 and continued growth of the "digital" economy have created an increased demand for electricity. The nuclear power system is operating at near its effective limits and no new domestic nuclear plants are currently in the permitting stage. Meanwhile, power generators have announced plans to construct a substantial amount of new coal-fired generating capacity and coal stockpiles remain at low levels. Also, over the course of the last year, quoted and spot prices for coal produced in the regions in which the Company operates have risen. Consequently, the Company has been able to commit much of its previously uncommitted 2002 and 2003 production at higher prices than in the recent past. All of the Company's estimated 2002 production has now been committed.

Low-Sulfur Coal Producer. The Company continues to believe that it is 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 in the marketplace than high-sulfur coal. Compliance coal is coal that meets the requirements of Phase II of the Clean Air Act without the use of expensive scrubbing technology. One hundred percent of the Company's current coal production is low sulfur. Approximately 68% of the Company's coal reserves are compliance quality while an additional 22% is low sulfur, or coal that when burned emits between 1.2 and 2.5 pounds of sulfur dioxide per million BTU's of heat content.

Chief Objectives. The Company continues to focus on realizing the potential of its assets and to maximize stockholder value. Its first financial objective in recent quarters has been to aggressively reduce debt and strengthen its balance sheet. Through September 30, 2001, the Company reduced its total debt by \$385.4 million principally through the use of proceeds raised in the February and May 2001 equity offerings described in the "Liquidity and Capital Resources" section below. In total, the Company has paid down more than \$600 million in debt since December 31, 1998. The Company's debt-to-capitalization ratio, which was 84% at December 31, 2000, improved to 57% at September 30, 2001.

In addition to continuing its efforts to pay down, restructure and diversify its remaining debt, the Company will focus on taking steps designed to improve earnings, strengthen cash generation, improve productivity and reduce costs at its large-scale mines, and build on its leading position in its target coal-producing basins.

#### LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of cash provided by or used in each of the indicated types of activities during the nine months ended September 30, 2001 and 2000:

	2001	2000
	-----	-----
	(in thousands)	
Cash provided by (used in):		
Operating activities	\$ 123,717	\$ 127,257
Investing activities	(103,347)	(106,978)
Financing activities	(20,378)	(22,009)

Cash provided by operating activities decreased in the nine months ended September 30, 2001 compared to the same period in 2000 despite a \$21.1 million decrease of the net loss period over period and increased distributions from its investment in Canyon Fuel. Other items contributing to the decrease were reduced depreciation, depletion and amortization expense resulting from reduced sales contract amortization and increased working capital requirements in the current period when compared to the prior period.

Cash used in investing activities during the nine months ended September 30, 2001 decreased compared to the same period in 2000 due to lower capital expenditures. During the nine months ended September 30, 2000, the Company purchased all remaining assets under a 1998 sale and leaseback arrangement for \$45.0 million. This was partially offset by higher capital expenditures at other Company operations in 2001.

Cash used in financing activities was \$20.4 million in the first nine months of 2001 compared to \$22.0 million during the same period of 2000. The net cash used in financing activities reflects the cash generated by the February 2001 and May 2001 issuances of common stock resulting in proceeds of \$372.2 million, the pay-down of \$385.4 million of debt and the repurchase of the Company's common stock at a cost of \$5.0 million. During the nine months ended September 30, 2000, the Company entered into a sale and leaseback of certain equipment, which resulted in net proceeds of \$13.4 million.

On February 22, 2001, the Company completed a public offering of 9,927,765 shares of common stock, including the remaining 4,756,968 shares held by its then largest stockholder, Ashland Inc., and 5,170,797 primary and treasury shares issued directly by the Company. Proceeds realized from the transaction, which totaled \$92.9 million net of the underwriters' discount and expenses, were used to pay down debt.

On April 12, 2001, the Company filed a Universal Shelf Registration Statement on Form S-3 with the Securities and Exchange Commission. The Universal Shelf allows the Company to offer, from time to time, an aggregate of up to \$750 million in debt securities, preferred stock, depository shares, common stock and related rights and warrants. On May 8, 2001, the Company utilized the shelf registration and completed a public offering of 8,500,000 primary shares of common stock. On May 16, 2001, the underwriters involved in the offering purchased an additional 424,200 shares pursuant to an over-allotment option granted by the Company in connection with the May 8, 2001 offering. The proceeds realized from these transactions after the underwriting discount and expenses were \$279.3 million. The proceeds were used to retire the Company's term loan with the remainder reducing the borrowings under the Company's revolving credit facility.

On September 14, 2001, the Company's Board of Directors approved a stock repurchase plan, under which the Company may repurchase up to 6.0 million of its shares of common stock from time to time. Through September 30, 2001, the Company repurchased 357,200 shares of its common stock pursuant to the plan at an average purchase price of \$14.13 per share. The repurchased shares are being held in the Company's treasury. Future repurchases under the plan will be made at management's discretion and will depend on market conditions and other factors.

The Company generally satisfies its working capital requirements and funds its capital expenditures with cash generated from operations. The Company believes that cash generated from operations and its borrowing capacity will be sufficient to meet its working capital requirements and anticipated capital expenditures for at least the next several years. The Company's ability to fund planned capital expenditures, to make acquisitions and to pay dividends will depend upon its 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 the Company's control.

Expenditures for property, plant and equipment were \$89.8 million for the nine months ended September 30, 2001, compared to \$103.1 million for the nine months ended September 30, 2000. Capital expenditures are made to improve and replace existing mining equipment, expand existing mines, develop new mines and improve the overall efficiency of mining operations. The Company estimates that its capital expenditures will be approximately \$35.0 million to \$40.0 million for the remainder of 2001. It is anticipated that these capital expenditures will be funded by available cash and existing credit facilities.

At September 30, 2001, the Company had \$34.5 million in letters of credit outstanding which, when combined with outstanding borrowings under the revolver, allowed for \$427.5 million of available borrowings under the Company's revolving credit facility. Financial covenants contained in the Company's 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 the Company not permit the ratio of total indebtedness at the end of any calendar quarter to adjusted EBITDA for the four quarters then ended exceed a specified amount. The fixed charge coverage ratio requires that the Company not permit the ratio of the Company's adjusted EBITDA plus lease expense to interest expense plus lease expense for the four quarters then ended to be less than a specified amount. The net worth test requires that the Company not permit its net worth to be less than a specified amount plus 50% of cumulative net income. In addition, the covenants require the pledging of assets to collateralize the Company's revolving credit facility. The assets pledged include equity interests in wholly owned subsidiaries, certain real property interests, accounts receivable and inventory of the Company. The Company was in compliance with these financial covenants at September 30, 2001.

The Company periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At September 30, 2001, there were \$20.0 million of such agreements in effect, of which none were outstanding. The Company can also issue an additional \$455.5 million in public debt and equity securities under a shelf registration statement.

The Company is exposed to market risk associated with interest rates. At September 30, 2001, debt included \$335.0 million of floating-rate debt after taking into consideration interest rate swap agreements, with a rate of interest based on LIBOR and current market rates for bank lines of credit. To manage this exposure, the Company enters into interest-rate swap agreements to modify the interest-rate characteristics of outstanding Company debt. At September 30, 2001, the Company had interest-rate swap agreements having a total notional value of \$425.0 million. These swap agreements are used to convert variable-rate debt to fixed-rate debt. Under these swap agreements, the Company pays a weighted average fixed rate of 6.89% (before the credit spread over LIBOR) and receives a weighted average variable rate based upon 30-day and 90-day LIBOR. The Company accrues 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 the agreements, thereby adjusting the effective interest rate on the Company's debt. 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. The remaining terms of the swap agreements at September 30, 2001 ranged from 11 to 45 months.

The discussion below presents the sensitivity of the market value of the Company's financial instruments to selected changes in market rates and prices. The range of changes reflects the Company's view of changes that are reasonably possible over a one-year period. Market values are the present value of projected future cash flows based on the market rates and prices chosen. The major accounting policies for these instruments are described previously in Note C to the condensed consolidated financial statements of the Company as of September 30, 2001.

Changes in interest rates have different impacts on the fixed-rate and variable-rate portions of the Company's debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows but does not impact the net financial instrument position.

The sensitivity analysis related to the fixed portion of the Company's debt portfolio assumes an instantaneous 100-basis-point move in interest rates from their levels at September 30, 2001 with all other variables held constant. A 100-basis-point decrease in market interest rates would result in a \$8.0 million increase in the fair value of the fixed portion of debt at September 30, 2001. Based on the variable-rate debt included in the Company's debt portfolio as of September 30, 2001, after considering the effect of the swap agreements, a 100-basis-point increase in interest rates would result in an annualized additional \$3.4 million of interest expense incurred based on September 30, 2001 debt levels.

## CONTINGENCIES

### Reclamation.

The federal Surface Mining Control and Reclamation Act of 1977 ("SMCRA") and similar state statutes require that mine property be restored in accordance with specified standards and an approved reclamation plan. The Company accrues for the costs of final mine closure 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 slurry ponds, eliminating sedimentation and drainage control structures and dismantling or demolishing equipment or buildings used in mining operations. The Company also accrues 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 the other ongoing reclamation liabilities are based upon permit requirements and require various estimates and assumptions, principally associated with costs and productivities.

The Company reviews its entire environmental liability periodically and makes necessary adjustments, including permit changes and revisions to costs and productivities to reflect current experience. The Company's management believes it is making adequate provisions for all expected reclamation and other associated costs.

### Legal Contingencies.

The Company is a party to numerous claims and lawsuits with respect to various matters, including those discussed below. The Company provides for costs related to contingencies, including environmental matters, when a loss is probable and the amount is reasonably determinable. After conferring with counsel, it is the opinion of management that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company.

**Dal-Tex Litigation.** A federal court injunction that prohibited the West Virginia Department of Environmental Protection (DEP) from issuing permits for the Company's Dal-Tex mine to use valley fill mining techniques resulted in the shutdown of this mine in July 1999. A subsequent order prohibited the construction or expansion of valley fills in West Virginia. Valley fills are created by mountaintop mining and other techniques used in central Appalachia, and involve the creation of large, engineered works into which excess earth and rock extracted during surface mining are placed. The plaintiffs in the litigation allege, among other things, that the construction of valley fills violates a regulation arising from SMCRA that the plaintiffs allege prohibits placing overburden or other obstructions in stream channels. The Company appealed the order specific to its Dal-Tex operations, and the company, the West Virginia DEP and other interested parties appealed the broader order concerning valley fills. On April 24, 2001, the United States Court of Appeals for the Fourth Circuit vacated the judgment of the district court with respect to the injunction that prohibited the West Virginia DEP from issuing permits to use valley fill mining techniques. The plaintiffs have appealed the decision of the Fourth Circuit to the United States Supreme Court and may also pursue remedies in state court. Because it is not financially viable for coal producers to operate some mining properties without valley fills, if the decision of the Fourth Circuit is overturned or state court remedies similar to those obtained in the federal district court are available to the plaintiffs, the Company and other coal producers in West Virginia may be forced to close all or a portion of its mining operations in West Virginia, to the extent those operations are dependent on the use of valley fills. 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 though the district court decision has been overturned, the Company cannot reopen the Dal-Tex mine until the EIS is completed and all necessary permits are obtained. At that time, the decision to commence mining operations will be subject to then-existing market conditions.

**Cumulative Hydrologic Impact Assessment ("CHIA") Litigation.** On January 20, 2000, two environmental organizations, the Ohio Valley Environmental Coalition and the Hominy Creek Watershed Association, filed suit against the West Virginia DEP in U.S. District Court in Huntington, West Virginia. In addition to allegations that the West Virginia DEP violated state law and provisions of the Clean Water Act, the plaintiffs allege that the West Virginia DEP's issuance of permits for surface and underground coal mining has violated certain non-discretionary duties mandated by SMCRA. Specifically, the plaintiffs allege that the West Virginia DEP has failed to require coal operators seeking permits to conduct water monitoring to verify stream flows and ascertain water quality, to always include certain water quality information in their permit applications and to analyze the probable hydrologic consequences of their operations. The plaintiffs also allege that the West Virginia DEP has failed to analyze the cumulative hydrologic impact of mining operations on specific watersheds.

The plaintiffs sought an injunction to prohibit the West Virginia DEP from issuing any new permits which fail to comply with all of the elements identified in their complaint. The complaint identifies, and sought to enjoin, three pending permits sought by the Company in connection with its Mingo Logan operations in order to continue existing surface mining operations at the Phoenix reserve. On January 15, 2001, the West Virginia DEP notified the plaintiffs that the Company has completed all steps necessary to obtain the permits. On March 8, 2001, the Court denied the plaintiffs' motion for a preliminary injunction seeking to enjoin the DEP's decision to issue the permits. The Company subsequently has received some of the permits necessary to continue operating the surface mine. If the plaintiffs ultimately prevail in this litigation, the Company's ability to mine surface coal at Mingo Logan could be adversely affected and, depending upon the length of the suspension, the effect could be material. This matter does not affect Mingo Logan's existing permits related to its underground operations.

#### CERTAIN TRENDS AND UNCERTAINTIES

##### Substantial Leverage - Variable Interest Rate - Covenants.

As of September 30, 2001, the Company had outstanding consolidated indebtedness of \$765.4 million, representing approximately 57% of the Company's capital employed. Despite making substantial progress in reducing debt, the Company continues to have significant debt service obligations, and the terms of its credit agreements limit its flexibility and result in a number of limitations on the Company. The Company also has significant lease and royalty obligations. The Company's ability to satisfy debt service, lease and royalty obligations and to effect any refinancing of its indebtedness will depend upon future operating performance, which will be affected by prevailing economic conditions in the markets that the Company serves as well as financial, business and other factors, many of which are beyond the Company's control. The Company may be unable to generate sufficient cash flow from operations and future borrowings or other financings may be unavailable in an amount sufficient to enable it to fund its debt service, lease and royalty payment obligations or its other liquidity needs.

The Company's relative amount of debt and the terms of its credit agreements could have material consequences to its business, including, but not limited to: (i) making it more difficult to satisfy debt covenants and debt service, lease payment and other obligations; (ii) making it more difficult to pay quarterly dividends as the Company has in the past; (iii) increasing the Company's vulnerability to general adverse economic and industry conditions; (iv) limiting the Company's ability to obtain additional financing to fund future acquisitions, working capital, capital expenditures or other general corporate requirements; (v) reducing the availability of cash flow from operations to fund acquisitions, working capital, capital expenditures or other general corporate purposes; (vi) limiting the Company's flexibility in planning for, or reacting to, changes in the Company's business and the industry in which the Company competes; or (vii) placing the Company at a competitive disadvantage when compared to competitors with less relative amounts of debt.

A significant portion of the Company's indebtedness bears interest at variable rates that are linked to short-term interest rates. If interest rates rise, the Company's costs relative to those obligations would also rise.

Terms of the Company's credit facilities and leases contain financial and other covenants that create limitations on the Company's ability to, among other things, effect acquisitions or dispositions and borrow additional funds and require the Company to, among other things, maintain various financial ratios and comply with various other financial covenants. Failure by the Company to comply with such covenants could result in an event of default under these agreements which, if not cured or waived, would enable the Company's lenders to declare amounts borrowed due and payable or otherwise result in unanticipated costs.

##### Losses.

The Company has reported a net loss of \$1.2 million during the nine months ending September 30, 2001 and a net loss of \$12.7 million for the full year ended December 31, 2000. The losses during the nine months ended September 30, 2001, were primarily attributable to production difficulties at the West Elk mine in Colorado in 2001 caused by high methane levels (which are unrelated to the combustion gases experienced by the West Elk mine in 2000) and by lower production and higher cost at the Samples surface operation in West Virginia caused by a sandstone intrusion into the coal seam. The losses in 2000 were primarily attributable to the temporary idling of the West Elk mine in Colorado following the detection of combustion-related gases in a portion of the mine.

Because the coal mining industry is subject to significant regulatory oversight and due to the possibility of adverse pricing trends or other industry trends beyond the Company's control, the Company may suffer losses in the future if legal and regulatory rulings, mine idlings and closures, adverse pricing trends or other factors affect the Company's ability to mine and sell coal profitably.

#### Environmental And Regulatory Factors.

Federal, state and local governmental 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 certain benefits for various retired coal miners represented by the United Mine Workers of America ("UMWA"). These regulations and legislation have had and will continue to have a significant effect on the Company's costs of production and competitive position. Future regulations, legislation or orders may also cause the Company's sales or profitability to decline by hindering its ability to continue its mining operations or by increasing its costs or by causing coal to become a less attractive fuel source.

Permits. Mining companies must obtain numerous permits that strictly regulate environmental and health and safety matters in connection with coal mining, some of which have significant bonding requirements. 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. Accordingly, the permits necessary for mining operations 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 that restricts the Company's ability to conduct its mining operation or to do so profitably.

As indicated by the legal action involving the Company's Dal-Tex operation which is discussed in "Contingencies - Legal Contingencies - Dal-Tex Litigation" above, the regulatory environment in West Virginia is uncertain with respect to coal mining. No assurance can be made that the Fourth Circuit's decision will not be overturned by the U.S. Supreme Court and the district court's decision reinstated or that the plaintiffs will not obtain similar relief in a state court action. In such event, there could be a material adverse effect on the Company's financial condition or results of operations.

New Environmental Regulations. Several new environmental regulations require a reduction in nitrogen oxide ("NOx") emissions generated by coal-fired electric generating plants. Substantially all of the Company's revenues from sales of coal in the first half of 2001 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.

Kyoto Protocol. On December 11, 1997, the U.S. government representatives at the climate change negotiations in Kyoto, Japan, agreed to reduce the emissions of greenhouse gases (including carbon dioxide and other gas emissions that are believed by some scientists to be trapping heat in the atmosphere and warming the earth's climate) in the United States. The U.S. adoption of the requirements of the Kyoto protocol is subject to conditions which may not occur and is also subject to the protocol's ratification by the U.S. Senate. The U.S. Senate has indicated that it will not ratify an agreement unless certain conditions, not currently provided for in the Kyoto protocol, are met. In addition, President Bush has stated that he does not support the Kyoto Protocol as written. At present, it is not possible to predict whether the Kyoto protocol will attain the force of law in the United States or what its impact would be on the Company.

Customers. In July 1997, the EPA proposed that 22 eastern states, including states in which many of the Company's customers are located, make substantial reductions in NOx emissions. The EPA expects the states to achieve these reductions by requiring power plants to reduce their NOx emissions to a level of 0.15 pounds of NOx per million Btu's of energy consumed. Many of the states sued the EPA in the U.S. Court of Appeals for the District of Columbia Circuit to challenge the new standard. In March 2000, the court upheld the standard and set a May 2004 deadline for compliance with the new rules. The states appealed to the U.S. Supreme Court and, in March 2001, the Court declined to hear the appeal. To achieve the proposed reductions, power plants may be required to install reasonably available control technology and additional control measures. The installation of these measures would make it more costly to operate coal-fired utility power plants and, depending on the requirements of individual state implementation plans, could make coal a less attractive fuel alternative in the planning and building of utility power plants in the future.

The EPA has also proposed the implementation of stricter ozone standards by 2003. If these standards are implemented they could require some of the Company's customers to reduce NOx emissions, which are a precursor to ozone formation, or even prevent the construction of new facilities that contribute to the non-attainment of the new ozone standard.

The U.S. Department of Justice, on behalf of the EPA, has filed a lawsuit against seven investor-owned utilities and brought an administrative action against one government-owned utility for alleged violations of the Clean Air Act. The EPA claims that over 30 of these utilities' power stations have failed to obtain permits required under the Clean Air Act for major improvements which have extended the useful service of the stations or increased their generating capacity. The Company supplies coal to seven of the eight utilities. It is impossible to predict the outcome of this legal action. Any outcome that adversely affects the Company's customers or makes coal a less attractive fuel source could, however, have an adverse effect on the Company's coal sales revenues and profitability.

#### Competition and Excess Industry Capacity.

The coal industry is intensely competitive, primarily as a result of the existence of numerous producers in the coal-producing regions in which the Company operates, and a number of the Company's competitors have greater financial resources. The Company competes with several major coal producers in the central Appalachian and Powder River Basin areas. The Company also competes with a number of smaller producers in those and other market regions. The Company is also 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 coal prices.

#### Electric Industry Factors.

Demand for coal and the prices that the Company will be able to obtain for its 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 the Company's control, including the demand for electricity (which is dependent to a significant extent on summer and winter temperatures); government regulation; technological developments and the location, availability, quality and price of competing sources of coal; the use of competing fuels such as natural gas, oil and nuclear; and alternative energy sources such as hydroelectric power. Demand for the Company's low-sulfur coal and the prices that the Company 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 the Company's coal by the domestic electric generation industry may cause a decline in profitability.

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. Deregulation may have a negative effect on the Company's profitability to the extent it causes the Company's customers to be more cost-sensitive.

#### Reliance On And Terms Of Long-Term Coal Supply Contracts.

During 2000, sales of coal under long-term contracts, which are contracts with a term greater than 12 months, accounted for 78% of the Company's total revenues. The prices for coal shipped under these contracts are generally below the current market price for similar type coal. As a consequence of the substantial volume of its sales that are subject to these long-term agreements, the Company has less coal available with which to capitalize on stronger coal prices. In addition, because long-term contracts typically allow the customer to elect volume flexibility, in the current rising price environment, the Company's ability to realize the higher prices available in the spot market may be restricted when customers elect to purchase higher volumes under such contracts.

The increasingly short terms of sales contracts and the consequent absence of price adjustment provisions in such contracts also make it more likely that inflation-related increases in mining costs during the contract term will not be recovered by the Company.

#### Reserve Degradation And Depletion.

The Company's profitability depends substantially on its 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. The Company has in the past acquired and will in the future acquire, coal reserves for its mine portfolio from third parties. The Company may not be able to accurately assess the geological characteristics of any reserves that it acquires, which may adversely affect the profitability and financial condition of the Company. Exhaustion of reserves at particular mines can also have an adverse effect on operating results that is disproportionate to the percentage of overall production represented by such mines. Mingo Logan's Mountaineer Mine is estimated to exhaust its longwall mineable reserves in 2004. The Mountaineer Mine generated \$28.8 million and \$32.1 million of the Company's total operating income in the nine months ended September 30, 2001 and 2000, respectively.

#### Potential Fluctuations In Operating Results-Factors Routinely Affecting Results Of Operations.

The Company's 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 profitability. Weather conditions, equipment replacement or repair, fuel prices, 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 operating results. A prolonged disruption of production at any of the Company's principal mines, particularly its Mingo Logan operation in West Virginia, would result in a decrease, which could be material, in the Company's revenues and profitability. Other factors affecting the production and sale of the Company's coal that could result in decreases in its profitability include: (i) expiration or termination of, or sales price redeterminations or suspension of deliveries under, coal supply agreements; (ii) disruption or increases in the cost of transportation services; (iii) changes in laws or regulations, including permitting requirements; (iv) litigation; (v) the timing and amount of insurance recoveries; (vi) work stoppages or other labor difficulties; (vii) mine worker vacation schedules and related maintenance activities; and (viii) changes in coal market and general economic conditions.

Decreases in the Company's profitability as a result of the factors described above could adversely impact quarterly or annual results materially. Any such adverse impact on the Company's operating results could cause its stock price to decline substantially, particularly if the results are below research analyst or investor expectations.

#### Transportation.

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. Disruption of these transportation services could temporarily impair the Company's ability to supply coal to its customers and thus adversely affect the Company's business and operating results. Increases in transportation costs, or changes in such costs relative to transportation costs for coal produced by its competitors or of other fuels, could have an adverse effect on the Company's business and results of operations.

#### Reserves - Title.

There are numerous uncertainties inherent in estimating quantities of recoverable reserves, including many factors beyond the control of the Company. Estimates of economically recoverable coal reserves and net cash flows necessarily depend upon the 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 cause estimates to vary considerably from actual results.

For these reasons, estimates of the economically recoverable quantities attributable to any particular group of properties, classifications of such 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 the Company's reserves may vary from estimates, and such variances may be material. These estimates thus may not accurately reflect the Company's actual reserves.

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

#### Certain Contractual Arrangements.

The Company's affiliate, Arch Western Resources, LLC, is the owner of Company reserves and mining facilities in the western United States. The agreement under which Arch Western was formed provides that a subsidiary of the Company, 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 such time, Arch Western has a debt rating less favorable than specified ratings with Moody's Investors Service or Standard & Poor's or fails to meet specified indebtedness and interest ratios.

In connection with the Company's June 1, 1998 acquisition of ARCO's coal operations, the Company entered into an agreement under which it agreed to indemnify ARCO against specified tax liabilities in the event that these liabilities arise as a result of certain actions taken prior to June 1, 2013, including the sale or other disposition of certain properties of Arch Western, the repurchase of certain equity interests in Arch Western by Arch Western or the reduction under certain circumstances of indebtedness incurred by Arch Western in connection with the acquisition. Depending on the time at which any such indemnification obligation were to arise, it could impact the Company's profitability for the period in which it arises.

The membership interests in Canyon Fuel, 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 its business and affairs. Some major business decisions concerning Canyon Fuel require the vote of 70% of the membership interests and therefore limit the Company's ability to make these decisions. These decisions include admission of additional members; approval of annual business plans; the making of significant capital expenditures; sales of coal below specified prices; agreements between Canyon Fuel and any member; the 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 various restrictions on the transfer of membership interests in Canyon Fuel.

The Company's Amended and Restated Certificate of Incorporation requires the affirmative vote of the holders of at least two-thirds of outstanding common stock voting thereon to approve a merger or consolidation and certain other fundamental actions involving or affecting control of the Company. The Company's Bylaws require the affirmative vote of at least two-thirds of the members of the Board of Directors of the Company in order to declare dividends and to authorize certain other actions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and is incorporated herein by reference.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by this Item is contained in the "Contingencies - Legal Contingencies" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and is incorporated herein by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)

- 2.1 Purchase and Sale Agreement dated as of March 22, 1998 among Atlantic Richfield Company, ARCO Uinta Coal Company, Arch Coal, Inc. and Arch Western Acquisition Corporation (incorporated herein by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed June 15, 1998)
- 2.2 Contribution Agreement among Arch Coal, Inc., Arch Western Acquisition Corporation, Atlantic Richfield Company, Delta Housing, Inc., and Arch Western Resources LLC, dated as of March 22, 1998 (incorporated herein by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K filed June 15, 1998)
- 3.1 Amended and Restated Certificate of Incorporation of Arch Coal, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended [June 30, 1999])
- 3.2 Amended and Restated Bylaws of Arch Coal, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2000)
- 4.1 Stockholders Agreement, dated as of April 4, 1997, among Carboex International, Ltd. Ashland Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
- 4.2 Assignment of Rights, Obligations and Liabilities under the Stockholders Agreement between Carboex International, Limited and Carboex, S.A. effective as of October 15, 1998 (incorporated herein by reference to Exhibit 4.2 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 4.3 Registration Rights Agreement, dated as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Inc., Carboex International, Ltd. and the entities listed on Schedules I and II thereto (incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997, except for amended Schedule I thereto, incorporated herein by reference to Exhibit 4.2 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1998)
- 4.4 Assignment of Registration Rights between Carboex International, Limited and Carboex, S.A. effective as of October 15, 1998 (incorporated herein by reference to Exhibit 4.4 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 4.5 Agreement Relating to Nonvoting Observer, executed as of April 4, 1997, among Carboex International, Ltd., Ashland Inc., Ashland Coal, Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (incorporated herein by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
- 4.6 Assignment of Right to Maintain a Non-Voting Observer at Meetings of the Board of Directors of Arch Coal, Inc. between Carboex International, Limited and Carboex, S.A. effective as of October 15, 1998 (incorporated herein by referenced to Exhibit 4.6 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

- 4.7 \$600,000,000 Revolving Credit Facility, \$300,000,000 Term Loan Credit Agreement by and among Arch Coal, Inc., the Lenders party thereto, PNC Bank, National Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as Syndication Agent, and First Union National Bank, as Documentation Agent, dated as of June 1, 1998 (incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed June 15, 1998)
- 4.8 Amendment 1 to Credit Agreement by and among Arch Coal, Inc., the Lenders party thereto, PNC Bank, National Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as Syndication Agent, and First Union National Bank, as Documentation Agent, dated as of January 21, 2000 (incorporated herein by reference to Exhibit 4.9 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 2000)
- 4.9 \$675,000,000 Term Loan Credit Agreement by and among Arch Western Resources, LLC, the Banks party thereto, PNC Bank, National Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as Syndication Agent, and NationsBank N.A., as Documentation Agent dated as of June 1, 1998 (incorporated herein by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed June 15, 1998)
- 4.10 Form of Rights Agreement, dated March 3, 2000, between Arch Coal, Inc. and First Chicago Trust Company of New York, as Rights Agent (incorporated herein by reference to Exhibit 1 to a Current Report on Form 8-A filed on March 9, 2000)
- 18 Preferability Letter of Ernst & Young LLP dated May 11, 2000 (incorporated herein by reference to Exhibit 18 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2000)

(b) Reports on Form 8-K:

A Report on Form 8-K dated July 24, 2001 announcing the Company's second quarter 2001 earnings was filed by the Company in the quarter ended September 30, 2001.

A Report on Form 8-K dated September 6, 2001 incorporating the text of slides shown at a management presentation to members of the business and investment community was filed by the Company in the quarter ended September 30, 2001.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARCH COAL, INC.

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(Registrant)

Date: November 13, 2001

/s/ John W. Lorson

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John W. Lorson  
Controller  
(Chief Accounting Officer)

Arch Coal, Inc.  
Form 10-Q for Quarter Ended September 30, 2001

INDEX TO EXHIBITS

None.