SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] Annual report pursuant to Section 13 or 1(d) of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2000

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 (State or other jurisdiction of incorporation or organization)	43-0921172 (IRS Employer Identification No.)
CityPlace One, Suite 300, St. Louis, MO (Address of principal executive offices)	63141 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $.01 par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

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

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 [_]

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

At March 1, 2001, based on the closing price of the registrant's common stock on the New York Stock Exchange on that date, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $701,416,462. In determining this amount, the registrant has assumed that all of its executive officers and directors, and persons known to it to be the beneficial owners of more than five percent of its common stock, are affiliates. Such assumption shall not be deemed conclusive for any other purpose.

At March 1, 2001, there were 43,446,008 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission no later than May 1, 2001, are incorporated by reference into Part III of this Form 10-K.

2. Portions of the registrant's Annual Report to Stockholders for the year ended December 31, 2000 are incorporated by reference into Parts I, II and IV of this Form 10-K.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

General

Arch Coal, Inc. ("Arch Coal" or the "Company") is one of the largest coal producers in the United States. The Company mines, processes and markets compliance and low-sulfur coal from mines located in both the eastern and western United States, enabling it to ship coal cost-effectively to most of the major domestic coal-fired electric generation facilities. As of December 31, 2000, the Company had 28 operating mines and controlled approximately 3.37 billion tons of proven and probable coal reserves, approximately 1.90 billion tons of which were assigned reserves and approximately 1.47 billion tons of which were unassigned reserves. Arch Coal sold 105.5 million tons of coal in 2000. The Company sells substantially all of its coal to producers of electric power.

The Company owns a 99% membership interest in Arch Western Resources, LLC ("Arch Western"), a joint venture that was formed in connection with the Company's acquisition of the United States coal operations of Atlantic Richfield Company on June 1, 1998. The principal operating units of Arch Western are Thunder Basin Coal Company, L.L.C., which operates the Black Thunder and Coal Creek mines in the Southern Powder River Basin in Wyoming; Mountain Coal Company, L.L.C., which operates the West Elk mine in Colorado; Canyon Fuel Company, LLC ("Canyon Fuel"), which operates three mines in Utah; and Arch of Wyoming, LLC, which operates two mines in the Hanna Basin of Wyoming. Arch Western owns 100% of the membership interests of Thunder Basin Coal Company, L.L.C., Mountain Coal Company, L.L.C. and Arch of Wyoming, LLC. Arch Western owns a 65% membership interest in Canyon Fuel, with the remaining 35% membership interest owned by ITOCHU Coal International Inc., a subsidiary of ITOCHU Corporation of Japan.

Recent Developments

On February 22, 2001, the Company completed a public offering of 9,927,765 shares of its common stock. The offering consisted of 5,170,797 shares sold directly by the Company and 4,756,968 shares held by Ashland Inc. The net proceeds realized by the Company from the offering of $93.2 million were used to pay down debt.

Business Environment

United States Coal Markets. Production of coal in the United States has increased from 434 million tons in 1960 to over 1.08 billion tons estimated in 2000. The following table sets forth demand trends for United States coal by consuming sector through 2020 as compiled and estimated(e) or forecasted(f) by the United States Department of Energy/Energy Information Agency. 2000 numbers supplied from the Agency throughout this document are annualized using results from the first ten months of the year.

Consumption by Sector	1998	1999	2000e	2005f	2010f	2015f	2020f	Annual Growth 1998-2020f
	(tons in millions)							
Electric Generation	939	940	960	1,069	1,122	1,149	1,186	1.2%
Industrial	69	66	65	83	84	85	86	0.5%
Steel Production	28	28	30	26	23	21	19	(1.9%)
Residential/Commercial	6	5	4	5	5	5	5	0.4%
Export	78	58	58	60	58	54	56	(0.2%)
Total	1,120	1,097	1,117	1,243	1,292	1,314	1,352	1.1%

Electricity Generation. Over the past several decades, coal has consistently maintained a 50% to 53% market share over competing energy sources to generate electricity because of its relatively low cost and its availability throughout the United States. On an average, all-in cost per megawatt-hour basis, coal-fired generation is substantially less expensive than electricity generated utilizing natural gas, oil or nuclear power. Hydroelectric power is inexpensive but is limited geographically, and there are few suitable sites for new hydroelectric power dams. Consequently, approximately 91% of the coal produced in the United States in 2000 was sold in the domestic market as a fuel to the electric generation segment. The remainder of the tons were sold as steam coal for industrial and residential purposes, into the export market, and as metallurgical coal. In addition to the relative competitiveness of coal-fired generation plants, coal consumption patterns are also influenced by the demand for electricity, governmental regulation impacting coal production and power generation, technological developments and the location, availability and quality of competing sources of coal, as well as alternative fuels such as natural gas, oil and nuclear and alternative energy sources such as hydroelectric power.

Long-term demand for electric power will depend upon a variety of economic, regulatory, technological and climatic factors beyond the Company's control. Historically, domestic demand for electric power has increased as the United States economy has grown. Two important regulatory initiatives, one designed to increase competition among utilities and lower the cost of electricity for consumers, and another to improve air quality by reducing the level of sulfur emitted from coal-burning power generation plants, have had and are expected to continue to have significant effects on the electric utility industry and its coal suppliers.

According to the Energy Information Agency, coal is expected to remain the primary fuel for electricity generation through 2020. The following table sets forth the source fuel for electricity generation from 1990 through 2020 as compiled and estimated(e) or forecasted(f) by the Energy Information Agency.

	1990	1995	1999	2000e	2005f	2010f	2015f	2020f
	(billion kilowatt hours)							
Coal............................	1,590	1,710	1,881	1,956	2,137	2,248	2,298	2,350
Petroleum.......................	124	75	108	111	42	27	27	29
Natural Gas.....................	378	499	583	629	823	1,157	1,542	1,886
Nuclear.........................	577	673	728	752	740	720	639	574
Hydro/Renewable/other...........	356	401	407	377	415	440	451	455
Total.........................	3,025	3,358	3,707	3,825	4,157	4,592	4,957	5,294

Coal's primary advantage is its relatively low cost compared to other fuels used to generate electricity. The following table sets forth the Energy Information Agency's forecast of delivered fuel prices to electric utilities through 2020. The table contains two data-sets. The top data-set is derived from the Energy Information Agency's Long-Term forecast published in December 2000 and is presented in 1999 dollars. The lower data-set is derived from the Energy Information Agency's Short-Term outlook published in February 2001. The expected prices for petroleum fuel-oil and natural gas for 2001 and 2002 are considerably above the forecasted prices published in December 2000, which highlights the pricing volatility of petroleum and natural gas compared to coal.

	1998	1999	2000e	2001f	2002f	2005f	2010f	2015f	2020f
	(dollars per million Btus)								
Annual Energy Outlook									
Petrol (Residual).......	$2.22	$2.42	$4.06	$3.93	$3.55	$3.52	$3.88	$4.00	$4.07
Natural Gas.............	2.41	2.55	3.90	3.79	3.27	2.88	3.03	3.24	3.59
Coal....................	1.27	1.21	1.20	1.19	1.18	1.13	1.05	1.01	0.98
Short-Term Energy Outlook									
Petrol (Residual).......			$4.22	$4.03	$3.87				
Natural Gas.............			4.22	5.22	5.02				
Coal....................			1.20	1.20	1.19				

Coal Production. United States coal production was over one billion tons in 2000. The following table, derived from data prepared by the Energy Information Agency except where noted, sets forth principal United States production statistics for the periods indicated.

	1980	1985	1990	1995	1998	1999	2000(e)
Total Tons (in millions)	820	884	1,026	1,033	1,118	1,093	1,087
Percent of Total Tons							
East	69%	63%	61%	53%	51%	48%	47%
West	31	37	39	47	49	52	53
Underground	40	40	41	38	37	36	35*
Surface	60	60	59	62	63	64	65*
Number of Mines							
Underground	1,875	1,695	1,422	977	827	753	713*
Surface	1,997	1,660	1,285	1,127	899	870	870*
Total	3,872	3,355	2,707	2,104	1,726	1,623	1,583*
Average Number of Mine Employees							
Underground	150,328	107,357	84,154	57,879	49,391	43,325	**
Surface	74,610	61,924	47,152	32,373	37,866	34,352	**
Average Production per Mine (tons in thousands)							
Underground	175	207	298	406	505	516	536*
Surface	246	321	469	565	779	810	812*

- --------
* Company estimate.
** Data not yet available.

Sales and Marketing

The Company sells coal both under long-term contracts, the terms of which are greater than 12 months, and on a current market or spot basis. When the Company's coal sales contracts expire or are terminated, it is exposed to the risk of having to sell coal into the spot market, where demand is variable and prices are subject to greater volatility. Historically, the price of coal sold under long-term contracts has exceeded prevailing spot prices for coal. However, in the past several years new contracts have been priced at or near existing spot rates.

The terms of the Company's coal sales contracts result from bidding and extensive negotiations with customers. Consequently, the terms of these contracts typically vary significantly in many respects, including price adjustment features, provisions permitting renegotiation or modification of coal sale prices, coal quality requirements, quantity parameters, flexibility and adjustment mechanisms, permitted sources of supply, treatment of environmental constraints, options to extend and force majeure, suspension, termination and assignment provisions.

Provisions permitting renegotiation or modification of coal sale prices are present in many of the Company's more recently negotiated long-term contracts and usually occur midway through a contract or every two to three years, depending upon the length of the contract. In some circumstances, customers have the option to terminate the contract if prices have increased by a specified percentage from the price at the commencement of the contract or if the parties cannot agree on a new price. The term of sales contracts has decreased significantly over the last two decades as competition in the coal industry has increased and, more recently, as electricity generators have prepared themselves for federal Clean Air Act requirements and the impending deregulation of their industry.

There are some contract terms that differ between a standard "eastern United States" contract and a standard "western United States" contract. In the eastern United States, many customers require that the coal be sampled and weighed at the destination. In the western United States, virtually all samples are taken at the source. More eastern United States coal is purchased on the spot market. The eastern United States market has more recently been a shorter-term market because of the larger number of smaller mining operations in that region. Western United States contracts sometimes stipulate that some production taxes and coal royalties be reimbursed in full by the buyer rather than as a pricing component within the contract. These items comprise a significant portion of western United States coal pricing.

A factor that may impact the Company's sale of coal in the future is the development of coal commodity trading. The New York Mercantile Exchange initiated electricity commodity trading a few years ago and has developed standards for a coal contract. The Exchange has announced that it intends to initiate coal contract trading based on a Huntington, West Virginia barge loading hub. However, the Exchange has not yet initiated trading. The development of standards to determine pricing has been difficult because of the non-homogeneous character of coal and diversity in mining locations, conditions and operations. Nonetheless, in anticipation of commodity trading, some brokerage and marketing firms have entered the coal markets and devised transactions that mimic commodity activity. Today, limited, but growing, over-the-counter trading is being conducted on both firm-forward transactions as well as put, call and other options. The trend to more commodity-type transactions could mark a significant change in how coal is sold. The Company is unable to predict whether this trend will have a material effect on its sales and whether any such effect would be positive or negative on its operating results.

Competition

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. The Company competes with several major coal producers in the Central Appalachian and Powder River Basin areas. It also competes with a number of smaller producers in those and its other market regions.

Operations

As of December 31, 2000, the Company operated a total of 28 mines, all located in the United States. Coal is transported from the Company's mining complexes to customers by means of railroad cars, river barges or trucks, or a combination of these means of transportation. As is customary in the industry, virtually all the Company's 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 table provides the location and a summary of information regarding the Company's principal mining complexes and the coal reserves associated with these operations as of December 31, 2000:

Mining Complex (Location)	Captive Mine(s)*	Contract Mine(s)*	Mining Equipment(/1/)	Transportation
Central Appalachia				
Mingo Logan (WV)...............	U	U(3), S	L, LW, C	NS
Coal-Mac (WV)..................	S	S	L	Barge/NS
Dal-Tex (WV)(/2/)..............	--	--	--	CSX
Hobet 21 (WV)..................	S, U	U	D, L, S(/3/)C	CSX
Arch of West Virginia (WV).....	S	U	D, L, S(/4/)	CSX
Samples (WV)...................	S	U	D, L, S(/5/)	Barge, CSX
Campbells Creek (WV)...........	--	U(2)	--	Barge
Lone Mountain (KY).............	U(2)	--	C	NS/CSX
Pardee (VA)....................	S, U	U	L, C	NS
Western United States				
Black Thunder (WY).............	S	--	D, S(/6/)	UP, BN
Coal Creek (WY)(/7/)...........	--	--	--	UP, BN
West Elk (CO)(/8/).............	U	--	LW, C	UP
Skyline (UT)(/9/)..............	U	--	LW, C	UP
SUFCO (UT)(/9/)................	U	--	LW, C	UP
Dugout Canyon (UT)(/9/)........	U	--	C(/10/)	UP
Arch of Wyoming (WY)...........	S(2)	--	D, S(/11/)	UP

*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.

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

Mining Complex (Location)	Tons Produced in 2000 (in millions)	Cost(/12/)/ Book Value (in millions)	Total Assigned Recoverable Reserves (in millions of tons)	Proven (in millions of tons)	Probable (in millions of tons)
Central Appalachia					
Mingo Logan (WV).......	9.8	113/35	20.2	20.2	--
Coal-Mac (WV)..........	0.9	33/13	--	--	--
Dal-Tex (WV)(/2/)......	--	2/1	84.2	69.9	14.3
Hobet 21 (WV)..........	5.6	53/31	83.4	79.2	4.2
Arch of West Virginia (WV)..................	3.6	123/22	20.4	20.4	--
Samples (WV)...........	6.5	139/60	25.2	24.9	0.3
Campbells Creek (WV)...	1.3	3/0	12.0	12.0	--
Lone Mountain (KY).....	2.3	87/34	58.5	53.1	5.4
Pardee (VA)............	1.7	39/9	12.9	12.9	--
Western United States					
Black Thunder (WY).....	60.1	256/212	987.6	987.6	--
Coal Creek (WY)(/7/)...	4.2	41/36	233.5	233.5	--
West Elk (CO)(/8/).....	3.5	102/68	124.0	99.3	24.7
Skyline (UT)(/9/)......	3.3	N/A	73.7	73.7	--
SUFCO (UT)(/9/)........	5.8	N/A	126.1	70.2	55.9
Dugout Canyon (UT)(/9/).............	0.5	N/A	34.6	26.1	8.5
Arch of Wyoming (WY)...	0.8	53/3	0.9	0.9	--
Totals...................	109.9	1,044/524	1,897.2	1,783.9	113.3

- --------

(/1/Reported)for captive operations only.

(/2/The)Company idled its 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.

(/3/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.

(/4/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.

(/5/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.

(/6/Utilizes)170-cubic-yard, 130-cubic-yard, 90-cubic-yard and 45-cubic-yard draglines and 53-cubic-yard, 60-cubic-yard and 82-cubic-yard shovels.

(/7/The)Company idled its mining operations at Coal Creek during the third quarter of 2000 because its cost structure was not competative in the current market environment.

(/8/The)Company idled its 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.

(/9/Mines)are operated by Canyon Fuel. Canyon Fuel is an equity investment and its financial statements and tons produced are not consolidated into the Company's financial statements and tons produced.

(/10/Currently)under development; partial production projected to begin in the second quarter of 2001.

(/11/Utilizes)76-cubic-yard and 64-cubic-yard draglines at Medicine Bow and a 32-cubic-yard dragline at Seminoe II.

(/12/Reflects)the cost of plant and equipment.

Transportation

Coal from the mines of the Company's subsidiaries is transported by rail, truck and barge to domestic customers and to Atlantic or Pacific coast terminals for shipment to domestic and international customers.

The Company's Arch Coal Terminal is located on a 60-acre site on the Big Sandy River approximately seven miles upstream from its confluence with the Ohio River. Arch Coal Terminal provides coal storage and transloading services.

The Company's Paint Creek Terminal is located on leased property on the Kanawha River at Crown Hill, West Virginia. The facility transloads coal trucked from the Campbells Creek and Samples mines for shipment by barge to the Company's customers.

Company subsidiaries together own a 17.5% interest in Dominion Terminal Associates ("DTA"), which leases and operates a ground storage-to-vessel coal transloading facility (the "DTA Facility") in Newport News, Virginia. The DTA Facility has a rated throughput capacity of 20 million tons of coal per year and ground storage capacity of approximately 1.7 million tons. The DTA Facility serves international customers, as well as domestic coal users located on the eastern seaboard of the United States.

As of December 31, 2000, Arch Western owned a 5.3% equity interest and Canyon Fuel owned a 9.0% equity interest in the Los Angeles Export Terminal ("LAXT"), which owns and operates a dry bulk terminal operation within the Port of Los Angeles. LAXT is served by the Union Pacific railroad. Current annual rated capacity at the terminal is 10 million tons. The City of Los Angeles owns the land upon which the facility has been constructed. LAXT has entered into a 35 year lease with the City which provides compensation for its contribution of cash and land to the venture. The total cost of the facility was approximately $144 million.

Regulations Affecting Coal Mining

The information contained in the "Contingencies--Reclamation" and "Certain Trends and Uncertainties--Environmental and Regulatory Factors" sections of "Management's Discussion and Analysis" of the Company's 2000 Annual Report to Stockholders is incorporated herein by reference.

Glossary Of Selected Mining Terms

Assigned Reserves. Recoverable coal reserves that have been designated for mining by a specific operation.

Auger Mining. Auger mining employs a large auger, which functions much like a carpenter's drill. The auger bores into a coal seam and discharges coal out of the spiral onto waiting conveyor belts. After augering is completed, the openings are reclaimed. This method of mining is usually employed to recover any additional coal left in deep overburden areas that cannot be reached economically by other types of surface mining.

Btu--British Thermal Unit. A measure of the energy required to raise the temperature of one pound of water one degree Fahrenheit.

Coal Seam. A bed or stratum of coal.

Coal Washing. The process of removing impurities, such as ash and sulfur based compounds, from coal.

Compliance Coal. Coal which, when burned, emits 1.2 pounds or less of sulfur dioxide per million Btus. 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.

Continuous Mining. One of two major underground mining methods now used in the United States (also see "Longwall Mining"). This process utilizes a machine--a "continuous miner"--that mechanizes the entire coal extraction process. The continuous miner removes or "cuts" the coal from the seam. The loosened coal then falls on a conveyor for removal to a shuttle car or larger conveyor belt system.

Dragline. A large machine used in the surface mining process to remove the overburden, or layers of earth and rock, covering a coal seam. The dragline has a large bucket suspended from the end of a long boom. The bucket, which is suspended by cables, is able to scoop up great amounts of overburden as it is dragged across the excavation area.

Longwall Mining. One of two major underground coal mining methods currently in use (see also "Continuous Mining"). This method employs a rotating drum, which is pulled mechanically back and forth across a face of coal that is usually several hundred feet long. The loosened coal falls onto a conveyor for removal from the mine. Longwall operations include a hydraulic roof support system that advances as mining proceeds, allowing the roof to fall in a controlled manner in areas already mined.

Low-Sulfur Coal. Coal which, when burned, emits 1.6 pounds or less of sulfur dioxide per million Btus.

Metallurgical Coal. The various grades of coal suitable for distillation into carbon in connection with the manufacture of steel. Also known as "met" coal.

Overburden. Layers of earth and rock covering a coal seam. In surface mining operations, overburden is removed prior to coal extraction.

Preparation Plant. A preparation plant is a facility for crushing, sizing and washing coal to prepare it for use by a particular customer. The washing process has the added benefit of removing some of the coal's sulfur content.

Probable Reserves. Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart; therefore, the degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

Proven Reserves. Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

Reclamation. The restoration of land and environmental values to a mining site after the coal is extracted. Reclamation operations are usually underway where the coal has already been taken from a mine, even as mining operations are taking place elsewhere at the side. The process commonly includes "recontouring" or shaping the land to its approximate original appearance, restoring topsoil and planting native grass and ground covers.

Recoverable Reserves. The amount of proven and probable reserves that can actually be recovered from the reserve base taking into account all mining and preparation losses involved in producing a saleable product using existing methods and under current law.

Spot Market. Sales of coal under an agreement for shipments over a period of one year or less.

Steam Coal. Coal used in steam boilers to produce electricity.

Surface Mine. A mine in which the coal lies near the surface and can be extracted by removing overburden.

Tons. References to a "ton" mean a "short" or net tonne, which is equal to 2,000 pounds.

Unassigned Reserves. Recoverable coal reserves that have not yet been designated for mining by a specific operation.

Underground Mine. Also known as a "deep" mine. Usually located several hundred feet below the earth's surface, an underground mine's coal is removed mechanically and transferred by shuttle car or conveyor to the surface.

Employees

As of March 1, 2001, the Company employed a total of 3,655 persons, 521 of whom were represented by the UMWA under a collective bargaining agreement that expires in 2002 and 142 of whom are represented by the Scotia Employees Association under a collective bargaining agreement that expires in 2003.

Executive Officers

The following is a list of the Company's executive officers, their ages and their positions and offices held with the Company during the last five years.

Bradley M. Allbritten, 43, is Vice President--Human Resources of the Company and has served in such capacity since March 1, 2000. Mr. Allbritten served as the Company's Director of Human Resources from February 1999 through February 2000.

C. Henry Besten, Jr., 52, is Vice President--Strategic Marketing of the Company and President of the Company's Arch Energy Resources, Inc. subsidiary and has served in such capacities since July 1997. Mr. Besten also served as Acting Chief Financial Officer of the Company from January 2000 to December 2000. During the past five years, Mr. Besten has also served as Senior Vice President--Marketing for Ashland Coal, Inc., ("Ashland Coal"), which merged with a subsidiary of the Company in July 1997.

John W. Eaves, 43, is Senior Vice President--Marketing of the Company and President of the Company's Arch Coal Sales Company, Inc. and has served in such capacities from March 1, 2000 and September 1995, respectively. Mr. Eaves served as Vice President--Marketing of the Company from July 1997 through February 2000.

Robert G. Jones, 44, is Vice President--Law, General Counsel and Secretary of the Company and has served in such capacity since March 1, 2000. Mr. Jones served the Company as Assistant General Counsel from July 1997 through February 2000 and as Senior Counsel from August 1993 to July 1997.

Steven F. Leer, 48, is President and Chief Executive Officer and a Director of the Company and has served in such capacity since 1992.

Robert J. Messey, 55, is Senior Vice President and Chief Financial Officer of the Company and has served in such capacity since December 2000.

Terry L. O'Connor, 55, is Vice President--External Affairs of the Company and has served in such capacity since June 1998.

David B. Peugh, 46, is Vice President--Business Development of the Company and has served in such capacity since 1993.

Robert W. Shanks, 47, is Vice President--Operations of the Company and has served in such capacity since July 1997. Since June 1998 he has also served as President of Arch Western Resources. During the past five years, Mr. Shanks has also served as President of the Company's Apogee Coal Company subsidiary.

Kenneth G. Woodring, 51, is Executive Vice President--Mining Operations of the Company and has served in such capacity since July 1997. During the past five years, Mr. Woodring has also served as Senior Vice President--Operations of Ashland Coal.

ITEM 2. PROPERTIES

The Company estimates that it owned or controlled, as of December 31, 2000, approximately 3.37 billion tons of proven and probable recoverable reserves, approximately 1.90 billion tons of which were assigned reserves and approximately 1.47 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 the Company's 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 the Company's estimated recoverable coal reserves at December 31, 2000:

Total Recoverable Reserves (tonnage in millions)

	Total Recoverable Reserves	Proven	Probable	Sulfur Content (lbs. per million Btus) <1.2	1.2-2.5	>2.5	Reserve Control Owned	Leased	Mining Method Underground	Surface
Wyoming.................	1,412	1,366	46	1,409	3	--	98	1,314	156	1,256
Central Appalachia......	1,302	927	375	552	688	62	498	804	614	688
Illinois................	298	217	81	--	8	290	248	50	270	28
Utah*...................	234	170	64	215	19	--	5	229	234	--
Colorado................	124	99	25	124	--	--	3	121	124	--
Total.................	3,370	2,779	591	2,300	718	352	852	2,518	1,398	1,972

- --------
* Represents 100% of the reserves held by Canyon Fuel, in which the Company has a 65% interest.

Assigned Recoverable Reserves (tonnage in millions)

	Total Assigned Recoverable Reserves	Proven	Probable	Sulfur Content (lbs. per million Btus) <1.2	1.2-2.5	>2.5	Reserve Control Owned	Leased	Mining Method Underground	Surface
Wyoming.................	1,222	1,222	--	1,222	--	--	--	1,222	--	1,222
Central Appalachia......	317	293	24	184	127	6	94	223	164	153
Illinois................	--	--	--	--	--	--	--	--	--	--
Utah*...................	234	170	64	215	19	--	5	229	234	--
Colorado................	124	99	25	124	--	--	3	121	124	--
Total.................	1,897	1,784	113	1,745	146	6	102	1,795	522	1,375

- --------
* Represents 100% of the reserves held by Canyon Fuel, in which the Company has a 65% interest.

Unassigned Recoverable Reserves (tonnage in millions)

	Total Unassigned Recoverable Reserves	Proven	Probable	Sulfur Content (lbs. per million Btus) <1.2	1.2-2.5	>2.5	Reserve Control Owned	Leased	Mining Method Underground	Surface
Wyoming.................	190	144	46	187	3	--	98	92	156	34
Central Appalachia......	985	634	351	368	561	56	404	581	450	535
Illinois................	298	217	81	--	8	290	248	50	270	28
Utah*...................	--	--	--	--	--	--	--	--	--	--
Colorado................	--	--	--	--	--	--	--	--	--	--
Total.................	1,473	995	478	555	572	346	750	723	876	597

- --------
* Represents 100% of the reserves held by Canyon Fuel, in which the Company has a 65% interest.

Over 98% of the Company's recoverable reserves consists of steam coal, which is coal used in steam boilers to make electricity. Less than 2% of the Company's recoverable reserves consists of metallurgical coal, which is a grade of coal used in the production of steel. Metallurgical coal represents an immaterial amount of the Company's operations.

As of December 31, 2000, approximately 87,057 acres (which includes 100% of the acreage held by Canyon Fuel) out of the Company's total of 579,000 acres of coal land was leased from the federal government. These leases have terms expiring between 2001 and 2019, subject to readjustment or extension and to earlier termination for failure to meet diligent development requirements. The Company has entered into leases covering substantially all of its leased reserves which are not scheduled to expire prior to expiration of projected mining activities. The Company also controls, through ownership or long-term leases, approximately 5,850 acres of land which are used either for its coal processing facilities or are being held for possible future development. Royalties are paid to lessors either as a fixed price per ton or as a percentage of the gross sales price of the mined coal. The Company pays percentage-based royalties under the majority of its significant leases. The terms of most of these leases extend until the exhaustion of mineable and merchantable coal. The remaining leases have initial terms ranging from one to 40 years from the date of their execution, with most containing options to renew. In some cases, a lease bonus, or prepaid royalty, is required, payable either at the time of execution of the lease or in annual installments. In most cases, the prepaid royalty amount is applied to reduce future production royalties.

The Pine Creek, Black Bear, Campbells Creek, Samples, Ruffner and Holden 25/Ragland preparation plants and related loadout facilities are located on properties held under leases which expire at varying dates over the next thirty years with either optional 20-year extensions or with unlimited extensions, and the balance of the Company's preparation plants and loadout facilities are located on property owned by the Company.

All of the identified coal reserves held by the Company's subsidiaries have been subject to preliminary coal seam analysis to test sulfur content. Of these reserves, approximately 68.2% consist of compliance coal while an additional 21.3% could be sold as low-sulfur coal. The balance is classified as high-sulfur coal. Some of the Company's low-sulfur coal can be marketed as compliance coal when blended with other compliance coal. Accordingly, most of the Company's reserves are primarily suitable for the domestic steam coal markets. However, a substantial portion of the low-sulfur and compliance coal reserves at the Mingo Logan operations may also be used as a high-volatile, low-sulfur, metallurgical coal.

Title to coal properties held by lessors or grantors to the Company and its subsidiaries and the boundaries of properties are normally verified at the time of leasing or acquisition. However, in cases involving less significant properties and consistent with industry practices, title and boundaries are not completely verified until such time as the Company's independent operating subsidiaries prepare to mine such reserves. If defects in title or boundaries of undeveloped reserves are discovered in the future, control of and the right to mine such reserves could be adversely affected.

From time to time, lessors or sublessors of land leased by the Company's subsidiaries have sought to terminate such leases on the basis that such subsidiaries have failed to comply with the financial terms of the leases or that the mining and related operations conducted by such subsidiaries are not authorized by the leases. Some of these allegations relate to leases upon which the Company conducts operations material to the Company's consolidated financial position, results of operations and liquidity, but the Company does not believe any pending claims by such lessors or sublessors have merit or will result in the termination of any material lease or sublease.

The Company must obtain permits from applicable state regulatory authorities before it begins to mine particular reserves. Applications for permits require extensive engineering and data analysis and presentation, and must address a variety of environmental, health and safety matters associated with a proposed mining operation. These matters include the manner and sequencing of coal extraction, the storage, use and disposal of waste and other substances and other impacts on the environment, the construction of overburden fills and water containment areas, and reclamation of the area after coal extraction. The Company is required to post bonds to secure performance under its permits. As is typical in the coal industry, the Company strives to obtain mining permits within a time frame that allows it to mine reserves as planned on an uninterrupted basis. The Company generally begins preparing applications for permits for areas that it intends to mine up to three years in advance of their expected issuance date. Regulatory authorities have considerable discretion in the timing of permit issuance and the public has rights to comment on and otherwise engage in the permitting process, including through intervention in the courts.

The Company's reported coal reserves are those that could be economically and legally extracted or produced at the time of their determination. In determining whether the Company's reserves meet this standard, it takes into account, among other things, the Company's potential inability to obtain a mining permit, the possible necessity of revising a mining plan, changes in estimated future costs, changes in future cash flows caused by changes in costs required to be incurred to meet regulatory requirements and obtaining mining permits, variations in quantity and quality of coal, and varying levels of demand and their effects on selling prices. Except as described elsewhere in this document with respect to permits to conduct mining operations involving valley fills, which has been taken into account in determining the Company's reserves, the Company is not currently aware of matters which would significantly hinder its ability to obtain future mining permits with respect to its reserves.

The carrying cost of the Company's coal reserves at December 31, 2000 (which does not include the Company's 65% share of Canyon Fuel) was $910.7 million, consisting of $19.8 million of prepaid royalties and the $890.9 million net book value of coal lands and mineral rights.

The Company's executive headquarters occupy approximately 50,000 square feet of leased space at CityPlace One, St. Louis, Missouri. See "Item 1. Business" for a further description of the Company's subsidiaries' mining complexes, mines, transportation facilities and other operations. The Company's subsidiaries currently own or lease the equipment utilized in their mining operations.

ITEM 3. LEGAL PROCEEDINGS

The information required by this Item is contained in the "Contingencies--Legal Contingencies" section of "Management's Discussion and Analysis" contained in the Company's 2000 Annual Report to Stockholders and is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders of the Company through the solicitation of proxies or otherwise during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required by this Item is contained in the Company's 2000 Annual Report to Stockholders under the caption "Stockholder Information" and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is contained in the Company's 2000 Annual Report to Stockholders under the caption "Selected Financial Information" and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is contained in the Company's 2000 Annual Report to Stockholders under the caption "Management's Discussion and Analysis", and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is contained in the Company's 2000 Annual Report to Stockholders under the caption "Management's Discussion and Analysis", and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to Part IV, Item 14 of this Annual Report for the information required by Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the subcaptions "Nominee For a Two-Year Term That Will Expire in 2003," "Nominees For a Three-Year Term That Will Expire in 2004", "Directors Whose Terms Will Expire in 2002", and "Directors Whose Terms Will Expire in 2003" which appear under the caption "Election of Directors" in the Company's Proxy Statement to be distributed to Company stockholders in connection with the Company's 2001 Annual Meeting (the "2001 Proxy Statement"). See also the list of the Company's executive officers and related information under "Executive Officers" in Part I, Item 1 herein.

ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing in the "Summary Compensation Table", the sections entitled "Stock Option Grants", "Stock Option Exercises", and "Long-Term Incentive Plan Award", the "Fiscal Year-End Option Values" table, the Pension Plan section (including the table therein), the Employment Agreements section, and the Compensation of Directors section in the 2001 Proxy Statement. No portion of the Personnel and Compensation Committee Report on Executive Compensation for 2000 or the Arch Coal Performance Graph is incorporated herein in reliance on Regulation S-K, Item 402(a)(8).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the caption "Ownership of Arch Coal Common Stock" in the 2001 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) The following consolidated financial statements of Arch Coal, Inc. and subsidiaries included in the Company's 2000 Annual Report to Stockholders are incorporated by reference:

Consolidated Statements of Operations--Years Ended December 31, 2000, 1999 and 1998

Consolidated Balance Sheets--December 31, 2000 and 1999

Consolidated Statements of Stockholders' Equity--Years Ended December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows--Years Ended December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

The following financial statements of Canyon Fuel Company, LLC are incorporated by reference to Exhibit 99 to this Annual Report on Form 10-K:

Statements of Operations--Years Ended December 31, 2000, 1999 and 1998

Balance Sheets--December 31, 2000 and 1999

Statements of Members' Equity--Years Ended December 31, 2000, 1999 and 1998

Statements of Cash Flows--Years Ended December 31, 2000, 1999 and 1998

Notes to Financial Statements

(a)(2) The following consolidated financial statement schedule of Arch Coal, Inc. and subsidiaries is included in Item 14 at the page indicated:

II--Valuation and Qualifying Accounts at page 22.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(a)(3) Exhibits filed as part of this Report are as follows:

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 Restated Certificate of Incorporation of Arch Coal, Inc. (incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2000)

3.2 Restated and Amended Bylaws of Arch Coal, Inc. (filed herewith)

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)

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 reference to Exhibit 4.6 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

4.7 Agreement for Termination of the Arch Mineral Corporation Voting Agreement and for Nomination of Directors, dated as of April 4, 1997, among Hunt Coal Corporation, Petro-Hunt, L.L.C., each of the trusts listed on Schedule I thereto, Ashland Inc. and Arch Mineral Corporation (incorporated herein by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

4.8 $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)

4.9 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 by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 1999)

4.10 $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)

4.11 Omnibus Amendment Agreement dated as of June 1, 1998 in respect to Arch Coal Trust no. 1998-1, Parent Guaranty and Suretyship Agreement, Lease Intended as Security, Subsidiary Guaranty and Suretyship Agreement, each dated as of January 15, 1998, among Apogee Coal Company, Catenary Coal Company, Hobet Mining, Inc., Arch Coal, Inc., Great-West Life & Annuity Insurance Company, Bank of Montreal, Barclays Bank, PLC, First Union National Bank, BA Leasing and Capital Corporation, First Security Bank, National Association, Arch Coal Sales Company, Inc., Ark Land Company and Mingo Logan Coal Company (incorporated herein by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed June 15, 1998)

4.12 Lease Intended as Security dated as of January 15, 1998, among Apogee Coal Company, Catenary Coal Company and Hobet Mining, Inc., as Lessees; The First Security Bank, National Association, as Lessor, and the Certificate Purchasers named therein. (incorporated herein by reference to Exhibit 4.5 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1997)

4.13 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)

10.1 Retention Agreement between Arch Coal, Inc. and Steven F. Leer, dated June 5, 2000 (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2000)

10.2 Form of Retention Agreement between Arch Coal, Inc. and each of its Executive Officers (other than its Chief Executive Officer) (incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2000)

10.3 Coal Off-Take Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Carboex International, Ltd. and Ashland Inc. (incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.4 Sales Agency Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Inc. and Carboex S.A. (incorporated herein by Reference to Exhibit 10.2 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.5 Assignment, Assumption and Amendment of Coal Sales Agency Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Coal, Inc., Saarbergwerke AG and Carboex International, Ltd. (incorporated herein by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.6 Deed of Lease and Agreement between Dingess-Rum Coal Company and Amherst Coal Company (predecessor to Ark Land Company), dated June 1, 1962, as supplemented January 1, 1968, June 1, 1973, July 1, 1974, November 12, 1987, Lease Exchange Agreement dated July 2, 1979 amended as of January 1, 1984 and January 7, 1993; February 24, 1993; Partial Release dated as of May 6, 1988; Assignments dated March 15, 1990, October 5, 1990 (incorporated herein by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.7 Agreement of Lease by and between Shonk Land Company, Limited Partnership and Lawson Hamilton (predecessor to Ark Land Company), dated February 8, 1983, as amended October 7, 1987, March 9, 1989, April 1, 1992, October 31, 1992, December 5, 1992, February 16, 1993, August 4, 1994, October 1, 1995, July 31, 1996 and November 27, 1996 (incorporated herein by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.8 Lease between Little Coal Land Company and Ashland Land & Development Co., a wholly-owned subsidiary of Ashland Coal, Inc. which was merged into Allegheny Land Company, a second tier subsidiary of the Company (incorporated herein by reference to Exhibit 10.11 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.9 Agreement of Lease dated January 1, 1988, between Courtney Company and Allegheny Land Company (legal successor by merger with Allegheny Land Co. No. 2, the assignee of Primeacre Land Corporation under October 5, 1992, assignments), a second-tier subsidiary of the Company (incorporated herein by reference to Exhibit 10.3 to the Annual Report on Form 10-K for the Year Ended December 31, 1995, filed by Ashland Coal, Inc., a subsidiary of the Company)

10.10 Lease between Dickinson Properties, Inc., the Southern Land Company, and F. B. Nutter, Jr. and F. B. Nutter, Sr., predecessors in interest to Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.14 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as Amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.11 Lease Agreement between Fielden B. Nutter, Dorothy Nutter and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that Subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.22 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.12 Lease and Modification Agreement between Horse Creek Coal Land Company, Ashland and Hobet Mining & Construction Co., Inc., an Independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.24 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as Amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.13 Lease Agreement between C. C. Lewis Heirs Limited Partnership and Allegheny Land Company, a second-tier subsidiary of the Company (incorporated herein by reference to Exhibit 10.25 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.14 Sublease between F. B. Nutter, Sr., et al., and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by Reference to Exhibit 10.27 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.15 Coal Lease Agreement dated as of March 31, 1992, among Hobet Mining, Inc. (successor by merger with Dal-Tex Coal Corporation) as lessee and UAC and Phoenix Coal Corporation, as lessors, and related Company Guarantee (incorporated herein by reference to a Current Report on Form 8-K dated April 6, 1992 filed by Ashland Coal, Inc., a subsidiary of the Company)

10.16 Lease dated as of October 1, 1987, between Pocahontas Land Corporation and Mingo Logan Collieries Company whose name is now Mingo Logan Coal Company (incorporated herein by reference to Exhibit 10.3 to Amendment No. 1 to a Current Report on Form 8-K filed on February 14, 1990 by Ashland Coal, Inc., a subsidiary of the Company)

10.17 Consent, Assignment of Lease and Guaranty dated January 24, 1990, among Pocahontas Land Corporation, Mingo Logan Coal Company, Mountain Gem Land, Inc. and Ashland Coal, Inc. (incorporated herein by reference to Exhibit 10.4 to Amendment No. 1 to a Current Report on Form 8-K filed on February 14, 1990 by Ashland Coal, Inc., a subsidiary of the Company)

10.18 Federal Coal Lease dated as of June 24, 1993 between the United States Department of the Interior and Southern Utah Fuel Company (incorporated herein by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.19 Federal Coal Lease between the United States Department of the Interior and Utah Fuel Company (incorporated herein by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.20 Federal Coal Lease dated as of July 19, 1997 between the United States Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.21 Federal Coal Lease dated as of January 24, 1996 between the United States Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.22 Federal Coal Lease Readjustment dated as of November 1, 1967 between the United States Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.23 Federal Coal Lease effective as of May 1, 1995 between the United States Department of the Interior and Mountain Coal Company (incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.24 Federal Coal Lease dated as of January 1, 1999 between the Department of the Interior and Ark Land Company (incorporated herein by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.25 Federal Coal Lease dated as of October 1, 1999 between the United States Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1999)

10.26 Form of Indemnity Agreement between Arch Coal, Inc. and Indemnitee (as defined therein) (incorporated herein by reference to Exhibit 10.15 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.27 Arch Coal, Inc. 1998 Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1997)

10.28 Arch Coal, Inc. (formerly Arch Mineral Corporation) Deferred Compensation Plan (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 (Registration No. 333-68131) filed on December 1, 1998)

10.29 Arch Coal, Inc. 1997 Stock Incentive Plan (incorporated herein by reference to Annex E to Appendix A to the Proxy Statement/Prospectus forming part of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.30 Arch Mineral Corporation 1996 ERISA Forfeiture Plan (incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.31 Arch Coal, Inc. Outside Directors' Deferred Compensation Plan effective January 1, 1999 (incorporated herein by reference to Exhibit 10.30 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.32 Second Amendment to the Arch Mineral Corporation Supplemental Retirement Plan effective January 1, 1998 (incorporated herein by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

13 Portions of the Company's Annual Report to Stockholders for the year ended December 31, 2000 (filed herewith)

18 Preferability Letter of Ernst & Young LLP dated May 11, 1999 (incorporated herein by Reference to Exhibit 18 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999)

21 Subsidiaries of the Company (filed herewith)

23.1 Consent of Ernst & Young LLP (filed herewith)

24 Power of Attorney (filed herewith)

99 Financial Statements of Canyon Fuel Company, LLC (filed herewith)

- --------
* Exhibits 10.27, 10.28, 10.29, 10.30 and 10.32 are executive compensation plans.
** Upon written or oral request to the Company's Secretary, a copy of any of the above exhibits will be furnished at cost.

(b) Reports on Form 8-K

None.

(d) Financial Statements of Canyon Fuel Company, LLC (incorporated by reference to Exhibit 99 of this Annual Report on Form 10-K for the Year Ended December 31, 2000).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

By: /s/ Steven F. Leer
Steven F. Leer
President and Chief Executive Officer

Date: March 14, 2001

Signatures	Capacity
/s/ Steven F. Leer Steven F. Leer	President and Chief Executive Officer and Director
/s/ Robert J. Messey Robert J. Messey	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ John W. Lorson John W. Lorson	Controller
* James R. Boyd	Director
Phillip W. Block	Director
* Frank M. Burke	Director
* Ignacio Dominguez Urquijo	Director
* Thomas L. Feazell	Director
* Robert L. Hintz	Director

Signatures	Capacity
* Douglas H. Hunt	Director
* James L. Parker	Director
* A. Michael Perry	Director
* Theodore D. Sands	Director

*By: /s/ Robert G. Jones
Robert G. Jones
As Attorney-in-fact

ORIGINAL POWERS OF ATTORNEY AUTHORIZING STEVEN F. LEER AND ROBERT G. JONES, AND EACH OF THEM, TO SIGN THIS ANNUAL REPORT ON FORM 10-K AND AMENDMENTS THERETO ON BEHALF OF THE ABOVE-NAMED PERSONS HAVE BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AS EXHIBIT 24 TO THIS REPORT.

ARCH COAL, INC. AND SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions(1)	Other(2)	Balance at End of Year
Year Ended December 31, 2000.....................					
Reserves Deducted from Asset Accounts.........					
Other Assets--Other Notes and Accounts Receivable...........	541	--	482	--	59
Current Assets--Supplies Inventory...	23,542	4,223	7,926	--	19,839
Year Ended December 31, 1999.....................					
Reserves Deducted from Asset Accounts.........					
Other Assets--Other Notes and Accounts Receivable...........	582	325	366	--	541
Current Assets--Supplies Inventory...	23,901	5,966	6,325	--	23,542
Year Ended December 31, 1998.....................					
Reserves Deducted from Asset Accounts.........					
Other Assets--Other Notes and Accounts Receivable...........	471	306	195	--	582
Current Assets--Supplies Inventory...	17,681	2,292	5,999	9,927	23,901

- --------
(1) Reserves utilized, unless otherwise indicated.
(2) Balances acquired in the Arch Western transaction.

EXHIBIT 3.2

BYLAWS

OF

ARCH COAL, INC.

(as of February 22, 2001)

BYLAWS

of

ARCH COAL, INC.

TABLE OF CONTENTS

BYLAWS

of

ARCH COAL, INC.

****

ARTICLE I - MEETINGS OF STOCKHOLDERS

Section 1. Annual Meeting.

The annual meeting of the stockholders of the Corporation shall be held at such date, time and place as shall be designated by the Board of Directors and stated in the notice of the meeting.

Section 2. Special Meeting.

Special meetings of the stockholders may be called at any time by the President, the Chief Executive Officer, any two or more members of the Board of Directors or holders of 10% or more of the outstanding capital stock of the Corporation entitled generally to vote for the election of Directors to be held at such date, time and place within the United States as shall be designated in the notice thereof.

Section 3. Notice of Meetings.

Written notice of the place, date and time of each meeting of the stockholders shall be given in the manner provided in Article XII, not less than ten nor more than sixty days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the General Corporation Law of Delaware). The notice of any special meeting shall state the purpose or purposes for which the special meeting is called and shall indicate that such notice is being issued upon the request of the person or persons calling the meeting.

Upon the written request of the person or persons calling any special meeting, notice of such meeting shall be given by the Secretary of the Corporation on behalf of such person or persons. Every request to the Secretary for the giving of notice of a special meeting of stockholders shall state the purpose or purposes of such meeting.

If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation.

Section 4. Quorum.

Subject to the provisions required by law, the Restated Certificate of Incorporation, as amended from time to time (hereafter the Certificate of Incorporation) and these Bylaws in respect of the vote required for a specified action, at any meeting of the stockholders, the holders of a majority of the outstanding shares of stock entitled to vote, present in person or by proxy, shall constitute a quorum for the transaction of business.

Notwithstanding the foregoing, if a quorum shall fail to attend any meeting, the presiding person of the meeting or the holders of a majority of the stock, present in person or by proxy, may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 5. Conduct of Business.

The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 6. Proxies and Voting.

Except as may be otherwise provided by law, the Certificate of Incorporation or these Bylaws, (i) each stockholder of record present in person or by proxy shall be entitled, at every stockholders' meeting, to one vote for each share of capital stock having voting power standing in the name of such stockholder on the books of the Corporation, and (ii) the affirmative vote of a majority of the shares voting thereon at a duly organized meeting and entitled to vote on the subject matter shall be the act of the stockholders.

Each stockholder entitled to vote at a meeting of stockholders or to express consent to corporate action in writing without a meeting may authorize another person or persons to act for such person by proxy. Every proxy must be in writing and signed by the stockholder or such stockholder's attorney-in-fact or executed in such other manner as may be permitted by law and approved by the Board of Directors. No proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable for the period stated therein if the proxy states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power.

Section 7. Waiver of Notice.

Notices of meetings need not be given to any stockholder who submits a written waiver of notice, signed in person or by proxy, whether before or after the meeting. The purpose or purposes of any meeting of stockholders shall be specified in any such waiver of notice. Attendance of a stockholder at a meeting, in person or by proxy, shall constitute a waiver of notice of such meeting, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 8. Consent of Stockholders in Lieu of Meeting.

Any action required to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Corporation's registered office shall be made by hand or by certified or registered mail, return receipt requested.

Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty days of the date the earliest dated consent is delivered to the Corporation, a written consent or consents signed by a sufficient number of holders to take action are delivered to the Corporation in the manner prescribed in this Section 8.

Section 9. Adjournments.

Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 10. Record Date.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which record date shall not be more than sixty nor less than ten days before the date of any meeting of stockholders, nor more than sixty days prior to the time for such other action as hereinbefore described; provided, however, that if no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and, for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall be not more than ten days after the date upon which the resolution fixing the record date is adopted. If no record date has been fixed by the Board of Directors and no prior action by the Board of Directors is required by law, the record date shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation in the manner prescribed by Article I, Section 8 hereof. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law with respect to the proposed action by written consent of the stockholders, the record date for determining stockholders entitled to consent to corporate action in writing shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

Section 11. Inspectors of Election.

The Corporation may, and shall if required by law, in advance of any meeting of stockholders, appoint one or more inspectors of election, who may be employees of the Corporation, to act at the meeting or any adjournment thereof and to make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. In the event that no inspector so appointed or designated is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of such inspector's duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of such inspector's ability. The inspector or inspectors so appointed or designated shall (i) ascertain the number of shares of capital stock of the Corporation outstanding and the voting power of each such share, (ii) determine the shares of capital stock of the Corporation represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares of capital stock of the Corporation represented at the meeting and such inspectors' count of all votes and ballots. Such certification and report shall specify such other information as may be required by law. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the Corporation, the inspectors may consider such information as is permitted by applicable law. No person who is a candidate for an office at an election may serve as an inspector at such election.

Section 12. List of Stockholders Entitled to Vote.

The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. Upon the willful neglect or refusal of the Directors to produce such a list at any meeting for the election of Directors, they shall be ineligible for election to any office at such meeting. Except as otherwise provided by law, the stock ledger shall be the only evidence as to who are the stockholders entitled to vote in person or by proxy at any meeting of stockholders or to examine the stock ledger, the list of stockholders or the books of the Corporation.

Section 13. Advisory Stockholder Votes.

In order for stockholders to adopt or approve any precatory proposal submitted to them for the purpose of requesting the Board of Directors to take certain actions, the affirmative vote of the holders of shares of capital stock having at least a majority of the vote which could be cast by the holders of all shares of capital stock entitled to vote thereupon, voting as a single class, must be voted in favor of the proposal.

ARTICLE II - BOARD OF DIRECTORS

Section 1. Power of the Directors.

The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all the powers of the Corporation and do all lawful acts and things which are not conferred upon or reserved to the stockholders by law or by the Certificate of Incorporation.

Section 2. Number and Term of Office; Election.

Subject to the provisions of the Certificate of Incorporation and the restriction that the number of Directors shall not be less than the number required by the laws of the State of Delaware, the number of Directors shall be fixed, from time to time, by a resolution adopted by the affirmative vote of not less than two-thirds of the members of the entire Board of Directors.

Each Director, including any Director elected to fill a vacancy as set forth in Section 5 of this Article II, shall hold office until the earlier of such Director's death, resignation, removal in the manner hereinafter provided, or the election and qualification of such Director's successor.

Section 3. Notice of Stockholder Business and Nominations.

A. Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of meeting delivered pursuant to Section 3 of Article I of these Bylaws, (b) by or at the direction of the Chairman or the Board of Directors, (c) with respect to those persons to be elected by any class or classes of Preferred Stock of the Corporation, by any holder of such class or classes of Preferred Stock, or (d) other than with respect to those persons to be elected by any class or classes of Preferred Stock of the Corporation, by any stockholder of the Corporation who is entitled to vote at the meeting who complied with the procedures set forth in this Bylaw and who was a stockholder of record at the time such notice is delivered to the Secretary of the Corporation.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (d) of subparagraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than seventy days nor more than ninety days prior to the first anniversary of the preceding year's Annual Meeting; provided, however, that in the event that the date of the Annual Meeting is advanced by more than twenty days, or delayed by more than seventy days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the ninetieth day prior to such Annual Meeting and not later than the close of business on the later of the seventieth day prior to such Annual Meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a Director all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of subparagraph (A) (2) of this Bylaw to the contrary, in the event that the number of Directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Corporation at least eighty days prior to the first anniversary of the preceding year's Annual Meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

B. Special Meetings of Stockholders.

Only such business shall be conducted at a Special Meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting pursuant to Section 3 of Article I of these Bylaws. Nominations of persons for election to the Board of Directors may be made at a Special Meeting of stockholders at which Directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in this Bylaw and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. Nominations by stockholders of persons for election to the Board of Directors may be made at such a Special Meeting of stockholders if the stockholder's notice as required by subparagraph (A) (2) of this Bylaw shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the ninetieth day prior to such Special Meeting and not later than the close of business on the later of the seventieth day prior to such Special Meeting or the tenth day following the day on which public announcement is first made of the date of the Special Meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

C. General.

(1) Only persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as Directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights of stockholders to request inclusion of or the obligation of the Corporation to include proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 4. Election.

Except as otherwise provided in the Certificate of Incorporation, at each meeting of the stockholders for the election of Directors at which a quorum is present, the persons receiving the greatest number of votes, up to the number of Directors to be elected, shall be the Directors.

Section 5. Vacancies.

Any vacancy on the Board of Directors (other than a vacancy caused by the death, resignation or removal of any Director elected by the holders of any class or classes of Preferred Stock, voting separately as a class or classes, as the case may be) or newly created directorship shall be filled by a majority of the Directors then in office, though less than a quorum, or by the sole remaining Director.

Section 6. Resignation.

Any Director may resign at any time by giving written notice of resignation to the Board of Directors, the Chairman of the Board, the President or the Secretary. Any such resignation shall take effect at the time specified therein, or, if the time when it shall become effective shall not be specified therein, then it shall take effect when accepted by action of the Board of Directors. Except as aforesaid, the acceptance of such resignation shall not be necessary to make it effective.

Section 7. Removal.

Any or all of the Directors (other than the Directors elected by the holders of any class or classes of Preferred Stock of the Corporation, voting separately as a class or classes, as the case may be) may be removed by the stockholders, with or without cause, by a vote of the holders of a majority of the shares then entitled to vote at an election of Directors, provided that if less than all the Directors are to be removed, no one of the Directors may be removed without cause if the votes cast against such Director's removal would be sufficient to elect such Director if then cumulatively voted at an election of the entire Board.

Section 8. Regular Meetings.

Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall be established by the Board of Directors and publicized among all Directors.

Section 9. Special Meetings.

Special meetings of the Board of Directors may be called by any two of the Directors, the Chairman of the Board, the President or Chief Executive Officer and shall be held at such place within the United States, on such date and at such time as the person or persons calling the meeting shall fix.

Section 10. Notice of Meeting.

Notice of the date, place, time and purpose or purposes of each meeting of the Directors shall be given to each Director in the manner provided in Article XII at such Director's usual place of business at least three business days before the day on which the meeting is to be held. Upon written request of the person or persons calling any special meeting, notice of such meeting shall be given by the Secretary on behalf of such person or persons and shall indicate the person or persons calling the meeting.

Section 11. Quorum.

At all meetings of the Board of Directors, the presence of a majority of the whole Board of Directors fixed by or in the manner provided in these Bylaws shall constitute a quorum for the transaction of business.

Section 12. Manner of Acting.

A. Except as otherwise provided in subsection B of this Section 12, the vote of a majority of the Directors present at a meeting at which a quorum is present shall be necessary for the passage of any resolution or act of the Board of Directors.

B. The vote of not less than two-thirds of the entire Board of Directors shall be necessary for the passage of any resolution or act of the Board of Directors in respect of the following:

(i) the declaration of a dividend or distribution on any capital stock of the Corporation not otherwise entitled to such dividend or distribution pursuant to the terms thereof;

(ii) the approval of the Corporation's annual budget or operating plan and any material modification thereof, including any capital expenditure in excess of Ten Million Dollars ($10,000,000) not provided for in the annual budget;

(iii) the election or removal of the Chief Executive Officer, Chief Financial Officer or Chief Operating Officer (if any) of the Corporation;

(iv) except for the issuance of Common Stock pursuant to a compensation plan approved by the Board of Directors, the issuance of more than One Million (1,000,000) shares of Common Stock or any shares of Preferred Stock in any one transaction or a series of related transactions;

(v) the adoption of a share purchase rights plan of a nature commonly referred to as a "poison pill";

(vi) the repurchase or redemption of any capital stock of the Corporation;

(vii) an establishment or change in the number of Directors of the Corporation;

(viii) the appointment of members to or dissolution of the Executive Committee; or

(ix) the amendment of this Section 12 of these Bylaws.

Section 13. Participation in Meetings by Conference Telephone.

Members of the Board of Directors, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear and speak to each other, and such participation shall constitute the presence in person at such meeting.

Section 14. Action by Consent.

Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting, prior notice, or vote if a consent in writing, which writing may be in counterparts which may bear telecommunicated facsimile signatures, setting forth the action so taken, is signed by all members of the Board or committee, and such writing is filed with the minutes of the proceedings of the Board or committee.

Section 15. Organization.

Meetings of the Board of Directors shall be presided over by the Chairman of the Board or in the Chairman's absence by the Chief Executive Officer, or in their absence by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in the Secretary's absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 16. Executive Committee.

The Board of Directors may establish an Executive Committee to consist of such Directors as the Board shall from time to time designate. The Executive Committee shall to the extent permitted by law have and may exercise such powers and authority as the Board shall from time to time determine. The Executive Committee shall record minutes of each of its meetings and shall submit the same to the Board at the first meeting of the Board held subsequent to such meeting of the Executive Committee. At all meetings of the Executive Committee, a majority of the total number of the members thereof shall constitute a quorum for the transaction of business. A majority vote of the members of the Executive Committee who are present shall be the act of the Executive Committee.

Section 17. Audit Committee.

The Board may by resolution designate an Audit Committee consisting of three or more Directors. Vacancies on the Audit Committee may be filled by the Board at any time and any member of the Audit Committee shall be subject to removal, with or without cause, at any time by resolution passed by the Board.

The Audit Committee shall review with the independent public accountants for the Corporation the scope of their examination, receive copies of the reports of such accountants, meet with representatives of such accountants for the purpose of reviewing and considering questions relating to such accountants' examination and such reports, review, either directly or through such accountants, the internal accounting and auditing procedures of the Corporation, report the results of the foregoing to the Board and act upon such other matters as may be referred to it by the Board.

At each meeting of the Board the Audit Committee shall make a report of all action taken by it since its last report to the Board.

The Audit Committee shall meet as often as may be deemed necessary and expedient at such times and places as shall be determined by the members of the Audit Committee. A majority of the members of the Audit Committee shall constitute a quorum. In the absence of the Chairman of the Audit Committee, the Audit Committee may appoint any member to preside at meetings thereof.

Section 18. Other Committees.

The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more other committees, each of which shall consist of one or more Directors. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Each such committee shall have and may exercise such powers and authority of the Board of Directors in the management of the business and affairs of the Corporation as the Board shall provide in the resolution designating such committee, except as otherwise provided by statute.

Section 19. Waiver of Notices.

Notice of a meeting need not be given to any Director who submits a written waiver of notice signed by such Director, including a telecommunicated facsimile waiver, whether before or after the meeting. The purpose or purposes of any meeting of the Directors must be specified in any such waiver of notice. Attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except when the Director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 20. Compensation of Directors.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors shall have the authority to fix the compensation of Directors. The Directors may be paid their expenses, if any, for attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as Director, or both. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE III - OFFICERS

Section 1. Election and Appointment; Term of Office.

The officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents (the number thereof to be determined from time to time by the Board), a Treasurer, a Secretary and a Controller. The Board shall designate either the Chairman of the Board or the President as the Chief Executive Officer of the Corporation. Each such officer shall be elected by the Board at its annual meeting to serve at the will and pleasure of the Board and shall hold office until the next annual meeting of the Board and until such officers' successor is elected or until such officer's earlier death, resignation or removal in the manner hereinafter provided. The Board may elect or appoint such other officers (including one or more Assistant Treasurers and one or more Assistant Secretaries) as it deems necessary who shall have such authority and shall perform such duties as the Board may prescribe. If additional officers are elected or appointed during the year, each of them shall hold office until the next annual meeting of the Board at which officers are regularly elected or appointed and until such officer's successor is elected or appointed or until such officer's earlier death, resignation or removal in the manner hereinafter provided. To the extent the Board shall deem appropriate, more than one of the offices authorized herein may be held by the same person.

Section 2. Resignation; Removal; Vacancies.

A. Resignation. Any officer may resign at any time by giving written notice to the Chief Executive Officer or the Secretary of the Corporation, and such resignation shall take effect upon receipt unless specified therein to be effective at some other time (subject always to the provisions of Section 2.B). No acceptance of any such resignation shall be necessary to make it effective.

B. Removal. All officers and agents elected or appointed by the Board shall be subject to removal at any time by the Board with or without cause.

C. Vacancies. A vacancy in any office may be filled for the unexpired portion of the term in the same manner as provided for election or appointment to such office.

Section 3. Duties and Functions.

A. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the stockholders and directors and shall perform such other duties as the Board may prescribe.

B. President. In the absence, refusal or incapacity of the Chairman of the Board, or the Chief Executive Officer (if the President shall not be designated as such) the President shall perform the duties of such office, except those of presiding at meetings of directors. If the President shall not be designated as the Chief Executive Officer by the Board pursuant to Section 1, the President shall act under the control of the Chief Executive Officer.

C. Chief Executive Officer. Subject to the direction and control of the Board, the Chief Executive Officer shall have responsibility for the management and control of the affairs and business of the Corporation and shall perform all duties and have all powers which are commonly incident to the office of the Chief Executive Officer, including the power to enter into commitments, execute and deliver contracts and do and perform all such other acts and things as are necessary and appropriate to accomplish the Corporation's business and operations and to manage the business and affairs of the Corporation. The Chief Executive Officer may assign such duties to other officers of the Corporation as the Chief Executive Officer deems appropriate.

D. Chief Operating Officer. In the event the President is not designated as Chief Executive Officer pursuant to Section 1, the President may, in the Board's discretion, be designated as the Chief Operating Officer of the Corporation and shall have such powers and duties as the Board, or Chief Executive Officer, may prescribe.

E. Vice Presidents. The Vice Presidents shall have such powers and perform such duties as the Board or the Chief Executive Officer may prescribe. One or more Vice Presidents may be given and shall use as part of the title such other designations, including, without limitation, the designations "Executive Vice President" and "Senior Vice President," as the Board or the Chief Executive Officer may designate from time to time. One of the Vice Presidents may also be given and shall use as part of the title such other designations as may be descriptive of descriptive responsibilities, including, without limitation, designations such as "Chief Financial Officer" or "General Counsel," as the Board or the Chief Executive Officer may designate from time to time. In the absence, refusal or incapacity of the Chairman of the Board and the President, the powers and duties of the Chief Executive Officer shall be vested in and performed by such Vice Presidents as have the designation "Executive Vice President," in the order of their seniority or as otherwise established by action of the Board from time to time, or by such other officer as the Board or the Chief Executive Officer shall have most recently designated for that purpose in a writing filed with the Secretary.

F. Treasurer. The Treasurer shall act under the direction of the Chief Executive Officer. The Treasurer shall have charge and custody of and be responsible for all funds and securities of the Corporation and the deposit thereof in the name and to the credit of the Corporation in such depositories as may be designated by the Board or by the Treasurer pursuant hereto. The Treasurer shall be authorized at any time, and from time to time, by a writing countersigned by the Chief Executive Officer, to open bank accounts in the name of the Corporation in any bank or trust company for the deposit therein of any funds, drafts, checks or other orders for the payment of money to the Corporation; and the Treasurer shall be authorized at any time, and from time to time, by a writing countersigned by the Chairman of the Board, to authorize and empower any representative or agent of the Corporation to draw upon or sign for the Corporation either manually or by the use of facsimile signature, any and all checks, drafts or other orders for the payment of money against such bank accounts which any such bank or trust company may pay without further inquiry.

G. Secretary. The Secretary shall act under the direction of the Chairman of the Board. The Secretary shall attend all meetings of the Board, the Executive Committee and the stockholders and record the proceedings in a book to be kept for that purpose and shall perform like duties for committees designated by the Board. The Secretary shall duly give or cause to be given, in accordance with the provisions of these Bylaws or as required by law, notice of all meetings of the stockholders and special meetings of the Board. The Secretary shall be the custodian of the records and the corporate seal or seals of the Corporation and shall cause the corporate seal to be affixed to all documents, the execution of which, on behalf of the Corporation, under its seal, is duly authorized and when so affixed may attest to same. The Secretary may sign, with the Chief Executive Officer or with the President, certificates of stock of the Corporation.

H. Controller. The Controller shall act under the direction of the Chief Financial Officer of the Corporation, or, if none, the Chief Executive Officer. Subject to the direction of the Chief Financial Officer of the Corporation or, if none, the Chairman of the Board, the Controller shall have charge of the accounting records of the Corporation, shall keep full and accurate accounts of all receipts and disbursements in books belonging to the Corporation, shall maintain adequate internal control of the Corporation's accounts, and may perform such other duties as may be prescribed by the Chief Financial Officer of the Corporation or, if none, the Chief Executive Officer, and by the Board.

ARTICLE IV - NOTES, LOAN AGREEMENTS, CHECKS, BANK ACCOUNTS, ETC.

Section 1. Execution of Documents.

The Board shall from time to time by resolution authorize the officers, employees and agents of the Corporation to execute and deliver checks and other orders for the payment of money and notes, bonds and other securities, together with mortgages, loan agreements and other instruments securing or relating thereto and other contracts and commitments for and in the name of the Corporation and may authorize such officers, employees and agents to delegate such power (including authority to redelegate) by written instrument to other officers, employees or agents of the Corporation.

Section 2. Deposits.

All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation or otherwise as the Board or any officer of the Corporation to whom power in that respect shall have been delegated by the Board shall select.

ARTICLE V - INDEMNIFICATION

Section 1. Indemnification of Directors and Officers.

A. Every person who is or was a Director or officer of the Corporation, or of any other corporation or entity which such person served as such at the request of the Corporation shall in accordance with Section 2 of this Article V be indemnified by the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any claim, action, suit or proceeding (other than any claim, action, suit or proceeding brought by or in the right of the Corporation), civil or criminal, administrative or investigative, or in connection with an appeal relating thereto, in which such person may be involved, as a party or otherwise, by reason of such person being or having been a Director or officer of the Corporation or such other corporation or entity, or by reason of any action taken or not taken in such capacity as such Director or officer, whether or not such person continues to be such at the time such liability or expense shall have been incurred, *provided* that such person acted, in good faith, and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe that such conduct was unlawful. The termination of any claim, action, suit or proceeding, civil or criminal, by judgment, order, settlement (whether with or without court approval), conviction or upon a plea of guilty or nolo contendere, or its equivalent shall not create a presumption that a Director or officer did not meet the standards of conduct set forth in this Section l.A.

B. Every person who is or was a Director or officer of the Corporation, or of any other corporation or entity which such person served as such at the request of the Corporation, shall in accordance with Section 2 of Article V be indemnified by the Corporation against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of any claim, action, suit or proceeding brought by or in the right of the Corporation, or in connection with an appeal or otherwise, by reason of such person being or having been a Director or officer of the Corporation or such other corporation or entity, or by reason of any action taken or not taken in such person's capacity as such Director or officer, whether or not such person continues to be such at the time such expense shall have been incurred, *provided* that such person acted in good faith, and in a manner such person reasonably believed to be the best interests of the Corporation, and *provided further*, that no indemnification shall be made in respect of any claim, action, suit or proceeding as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the court in which such claim, action, suit or proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

Section 2. Right to Indemnification.

Every person referred to in Section 1 or Section 2 of this Article V who has been wholly successful, on the merits or otherwise, with respect to any claim, action, suit or proceeding of the character described in said Sections shall be entitled to indemnification as of right. Except as provided in the preceding sentence, any indemnification under Section 1 or Section 2 of this Article V may be made by the Board of Directors, in its discretion, but only if (a) the Board of Directors, acting by a quorum consisting of Directors who are not parties to such claim, action, suit or proceeding, shall have found that the Director or officer has met the applicable standard of conduct set forth in Section 1 or Section 2, as the case may be, of this Article V or (b) there be no such disinterested quorum, independent legal counsel (who may be the regular outside counsel of the Corporation) shall have delivered to the Corporation written advice to the effect that in their judgment such applicable standard has been met, or (c) by the stockholders of the Corporation.

Section 3. Expenses.

Expenses incurred with respect to any claim, action, suit or proceeding of the character described in Section 1 of this Article V may be paid by the Corporation prior to the final disposition thereof upon receipt of an undertaking by or on behalf of the Director or officer to repay such amount unless it shall ultimately be determined that such person is entitled to indemnification by the Corporation.

Section 4. Other Rights.

The rights of indemnification provided in this Article V shall be in addition to any other rights to which a Director or officer of the Corporation or such other corporation or entity may otherwise be entitled by contract, vote of disinterested stockholders or Directors or otherwise or as a matter of law; and in the event of such person's death, such rights shall extend to such person's heirs and legal representatives.

ARTICLE VI - SHARES AND THEIR TRANSFER

Section 1. Certificates for Shares.

The interests of each stockholder of the Corporation shall be represented by certificates signed in the name of the Corporation by (a) either the Chairman of the Board of Directors or the President or a Vice President and (b) either the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation or by registration in book-entry accounts without certificates for shares of stock in such form as the appropriate officers of the Corporation may from time to time proscribe.

If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of any certificate which the Corporation may issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, or in any act amending, supplementing or substituted for such Section, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation may issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Any of or all the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

The Board of Directors may direct a new certificate or certificates to be issued, or a book-entry account be established or adjusted, in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed.

Section 2. Transfer.

Upon surrender to the Corporation or its transfer agent of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, or by appropriate book-entry procedures, and upon payment of any applicable transfer taxes as the Corporation or its agents may reasonably require, it shall be the duty of the Corporation to record the transaction upon its books.

Section 3. Record.

The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII - THIRD PARTIES

Any party dealing with the Corporation shall be entitled to rely conclusively as to the due authorization of any act of the Corporation upon a certificate provided to it and signed by (a) the President or any Vice President and (b) the Secretary or any Assistant Secretary to the effect that such act was duly authorized by all necessary action of the Corporation.

ARTICLE VIII - SEAL

The Board of Directors may by resolution provide for a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary.

ARTICLE IX - FISCAL YEAR

The fiscal year of the Corporation shall end on the last calendar day of each year.

ARTICLE X - AMENDMENTS

Subject to the provisions of Article II, these Bylaws may be adopted, repealed, altered or amended by the Board of Directors at any regular or special meeting thereof. Except as otherwise fixed pursuant to the provisions of the Certificate of Incorporation hereof relating to the voting rights of the holders of any class or series of Preferred Stock, the stockholders of the Corporation shall have the power to adopt, repeal, alter or amend Article II of these Bylaws by the affirmative vote of not less than two-thirds of the shares of the Common Stock voting thereon.

ARTICLE XI - NOTICES

All notices and other communications hereunder shall be in writing and delivered personally or sent, if in the United States by first class mail return receipt requested, or if outside the United States by air mail, return receipt requested, or in either case by telex, telecopy, or other facsimile telecommunications. Any notice or other communication so transmitted shall be deemed to have been given at the time of delivery, in the case of a communication delivered personally, on the business day following receipt of answer back, telecopy, or facsimile confirmation, in the case of a communication sent by telex, telecopy or other facsimile telecommunication, respectively, or as provided in Section 3 of Article I of these Bylaws in the case of a communication sent by mail.

ARTICLE XII - COMPUTATION OF TIME PERIODS

The words "day" or "days" as used in these Bylaws with respect to the computation of periods of time shall mean calendar days and the words "business day" or "business days" as used in these Bylaws with respect to the computation of periods of time shall mean any day that is not a Saturday, Sunday or other holiday in New York, New York; *provided, however*, that if the last day of any period of time shall fall on a day other than a business day, such period shall be extended to include the next succeeding business day in each such location. All computations of time shall be based on New York, New York time.

ARCH COAL, INC.

2000
ANNUAL Report

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

This annual report includes 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." The forward-looking statements contained in this report are based on expectations or assumptions, some or all of which may be incorrect and which are also subject to various risks and uncertainties that could cause actual results to differ materially from those projected in these statements. These expectations and assumptions include the Company's expectation of continued growth in the demand for electricity; belief that legislation and regulations relating to the Clean Air Act will increase demand for its 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 and meet its debt reduction goals; and the other risks and uncertainties which are described below under "Contingencies" and "Certain Trends and Uncertainties."

RESULTS OF OPERATIONS

2000 COMPARED TO 1999

Net Income (Loss) The Company incurred a net loss of $12.7 million for the year ended December 31, 2000 compared to a net loss of $346.2 million for the year ended December 31, 1999. Results for 2000 were adversely impacted by the temporary idling of the West Elk mine in Gunnison County, Colorado. The mine was idled from January 28, 2000 to July 12, 2000, following the detection of combustion-related gases in a portion of the mine. The mine also experienced geological conditions that hindered production during the fourth quarter of 2000. During 2000, the mine contributed $41.5 million of coal sales and experienced an operating loss of $43.4 million (excluding insurance recoveries) compared to $110.3 million of coal sales and $13.1 million of operating income during 1999. Offsetting a portion of the loss at the West Elk mine were pre-tax partial insurance settlements aggregating $31.0 million received as part of the Company's coverage under its property and business interruption insurance policy.

Other factors affecting 2000 results included recent permit revisions at the Company's idle mine properties in Illinois, which reduced the Company's reclamation liability and created a pre-tax gain of $7.8 million at that location. In addition, the IRS issued a notice during 2000 outlining the procedures for obtaining tax refunds on certain excise taxes paid by the industry on export sales tonnage. The notice is a 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. The Company also settled certain workers' compensation liabilities with the state of West Virginia resulting in pre-tax gains of $21.8 million. This was partially offset by adjustments to other workers' compensation liabilities resulting from changes in estimates which caused increases to the liability of $13.5 million. During 2000, as a result of adjustments to employee postretirement medical benefits, the Company recognized $9.8 million of pre-tax curtailment gains resulting from previously unrecognized postretirement benefit changes which occurred from plan amendments in previous years. During 1999, the Company recorded a non-cash impairment charge of $364.6 million and charges of $23.1 million related to the restructuring of its administrative workforce and the closure of several operations. The Company also recorded a $112.3 million valuation allowance for a portion of its deferred tax assets and changed its method of depreciation on preparation plants and loadouts from straight-line to a units-of-production basis, which resulted in an increase to income of $3.8 million net-of-tax reported as a cumulative effect of accounting change in the consolidated statement of operations for 1999. All 1999 one-time charges are described in more detail in "1999 Compared to 1998", below.

Revenues Total revenues for the year ended December 31, 2000 were $1.4 billion, a decrease of 10% from the same period in the prior year as a result of several factors. These factors include reduced sales at the Company's West Elk mine as a result of the idling described above. Also, during the second half of 1999, the Company closed its Dal-Tex, Wylo and Arch of Illinois operations and two surface mines in Kentucky. Partially offsetting sales at the Company's closed eastern operations were increased sales at other eastern operations.

The resulting decrease in production and sales from the Company's eastern operations was partially offset by increased production and sales at the Company's Black Thunder mine in Wyoming when compared to 1999. As a result, on a per-ton-sold basis, the Company's average selling price of $12.72 decreased $.86 from the prior year primarily as a result of the increase in coal sales from the Company's 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 compared to the prior year resulting from the temporary idling of the West Elk mine, the partial insurance settlements, the reclamation liability adjustment at Arch of Illinois, the excise tax recoveries, the workers' compensation adjustments, the postretirement medical benefit changes and the 1999 one-time impairment and restructuring charge (all described above), income from operations increased $0.2 million for the year ended December 31, 2000 when compared to the prior year. The increase in income from operations resulted primarily from ongoing improved performance at several of the Company's mines caused in part by the Company's continued focus on reducing costs and improving productivity, including improved performance and production at the Company's Black Thunder mine and reduced costs in the current year 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 income contributions prior to its closing on July 23, 1999. Increased fuel costs of over $1.0 million per month compared to last year partially offset the increase in income from operations. Income from operations also declined at the Company's Mingo Logan longwall operation (Mountaineer Mine), where, despite the contribution of $39.3 million of income from operations, results were below the $46.6 million of income from operations for 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. Other factors that affected year-to-year comparisons were sales of surplus land which resulted in aggregate pre-tax gains of $12.1 million during the current year compared to $2.4 million in 1999. Also, during the year ended December 31, 1999, the Company 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 $6.5 million to the prior year's results.

Selling, General and Administrative Expenses Selling, general and administrative expenses decreased $7.5 million from 1999. The decrease was attributable to cost savings resulting from the restructuring of the Company's administrative workforce that occurred during the fourth quarter of 1999.

Income Taxes The Company's effective tax rate is sensitive to changes in annual profitability and percentage depletion. During the fourth quarter of 1999, the Company determined that as it relates to future taxes, the Company did not anticipate recognizing all of its alternative minimum tax credit carry-forwards in the future and only expected to recognize part of the benefit of its deferred tax asset at the alternative minimum tax rate of approximately 24%. Management believes that taxable income will be generated by the Company in future periods that is consistent with historical income levels and will, more likely than not, permit the realization of the remaining net deferred tax assets at December 31, 2000.

Adjusted EBITDA Adjusted EBITDA (income (loss) 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 the Company, its subsidiaries and its ownership percentage in its equity investments) was $315.2 million for the year ended December 31, 2000 compared to $325.9 million for the prior year. The decrease in adjusted EBITDA was primarily attributable to the continued negative impact of the idling at the West Elk mine (including insurance recoveries) and lower operating profit at the Mingo Logan Mountaineer Mine as described above. This was partially offset by improved performance at the Company's Black Thunder mine. Adjusted 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 generally accepted accounting principles.

1999 COMPARED TO 1998

Net Income(Loss) The Company incurred a net loss in 1999 of $346.3 million compared to net income of $30.0 million in 1998. The Company acquired the U.S. coal operations of Atlantic Richfield Company (the "Arch Western operations") effective June 1, 1998 (the "Arch Western transaction"). Consequently, 1999 results include operating results of the Arch Western operations for the entire year, whereas the prior year only includes results of the Arch Western operations from June 1, 1998, including a 65% share of Canyon Fuel Company, LLC ("Canyon Fuel") income, net of purchase accounting adjustments.

Results of operations for 1999 include various one-time charges which are detailed below.

During the fourth quarter of 1999, the Company determined that significant changes were necessary in the manner and extent in which certain central Appalachia coal assets would be deployed. The anticipated changes were determined during the Company's annual planning process and were necessitated by the adverse legal and regulatory rulings related to surface mining techniques (see additional discussion in the "Contingencies -- Legal Contingencies -- Dal-Tex Litigation" section of this report) as well as the continued negative pricing trends related to central Appalachia coal production experienced by the Company. As a result of the planned changes in the deployment of its long-lived assets in the central Appalachia region and pursuant to FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, the Company evaluated the recoverability of its active mining operations and its 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 certain coal reserves with no future mining plans were below the carrying value of such long-lived assets. Accordingly, during the fourth quarter of 1999, the Company 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 for 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 the Company's 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 estimated fair value for the coal reserves with no future mining plans was based upon the fair value of these properties to be derived from subleased operations. Management does not expect the impairment charge to have a material impact on the operating results of the Company in any future period.

During 1999, the Company also recorded pre-tax charges totaling $23.1 million related to (i) the restructuring of its administrative workforce; (ii) the closure of its Dal-Tex mine in West Virginia due to permitting problems; and (iii) the closure of several mines in Kentucky (Coal-Mac) and the one remaining underground mine in Illinois due to depressed coal prices, which was caused in part by increased competition from western coal mines. 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 the consolidated statements of operations. The following are the components of severance and other exit costs included in the restructuring charge along with related 2000 and 1999 activity:

(in thousands)	1999 Charge	Utilized in 1999	Balance at December 31, 1999	Utilized in 2000	Balance at December 31, 2000
Employee costs	$ 7,354	$ 704	$ 6,650	$ 5,184	$ 1,466
Obligations for non-cancelable lease payments	9,858	484	9,374	9,374	-
Reclamation liabilities	3,667	1,200	2,467	2,467	-
Depreciation acceleration	2,172	2,172	-	-	-
	$ 23,051	$ 4,560	$ 18,491	$ 17,025	$ 1,466

Except for the charge related to depreciation acceleration, all of the 1999 restructuring charge required the Company to use cash. Also, except for amounts attributable to retiree healthcare, the Company utilized the balance of the amounts reserved for employee costs in 2000.

The Company 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 (see additional discussion in the "Contingencies - Legal Contingencies - Dal-Tex Litigation" section of this report). 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 operation 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. The two small surface mines in Kentucky affiliated with the Coal-Mac operation were closed because their cost structures were not competitive in the then-existing market environment.

Revenues for closed operations as a percent of total revenues for the Company were as follows:

Year ended	1999	1998
Arch of Illinois (Idled 12/99)	3%	3%
Wylo (Idled 12/99)	2%	3%
Coal-Mac (Idled 12/99)	1%	2%
Dal-Tex (Idled 7/99)	3%	7%

During 1999, the Company also recorded a $112.3 million valuation allowance for a portion of its deferred tax assets that management believes, more likely than not, will not be realized. Prior to the year ended December 31, 1999, the Company's 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. These factors were: (a) a significant increase in the amount of the Company's 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 the Company's compliance coal.

Effective January 1, 1999, the Company changed its 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 assets and their economic lives are typically based and measured on coal throughput. The Company believes 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, therefore, more appropriately matches production costs over the lives of the preparation plants and loadouts with coal sales revenue and results in a more accurate allocation of the cost of the physical assets to the periods in which the assets are consumed. The cumulative effect of applying the new method for years prior to 1999 is an increase to income of $3.8 million net-of-tax ($6.3 million pre-tax) reported as a cumulative effect of accounting change in the consolidated statement of operations for 1999.

Revenues Total revenues increased in 1999 from 1998 by 4.1% primarily as a result of the inclusion of a full year of operating results from the Arch Western operations compared to only seven months of operating results from the Arch Western operations in 1998. Revenues were also favorably impacted by increased production and sales at the Company's Samples mine. The increase was partially offset by reduced production and sales at the Company's Dal-Tex and Wylo operations, both located in central Appalachia, and the Company's Arch of Illinois surface operation. The Wylo and Arch of Illinois surface operations ceased production in December 1999 and June 1998, respectively, due to the depletion of their recoverable coal reserves. As planned, the Company 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 (the "Dal-Tex Litigation") (see additional discussion in the "Contingencies - Legal Contingencies - Dal-Tex Litigation" section of this report). On a per-ton-sold basis, the Company's average selling price decreased by $4.03, primarily because of the inclusion of the Arch Western operations for all of 1999 compared to only seven months during 1998. Western coal has a significantly lower average sales price than that provided from the Company's eastern coal operations, due in part to the lower Btu content of Powder River Basin coal.

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 certain idle properties in eastern Kentucky and a pre-tax gain of $7.5 million on the sale of the Company's idle Big Sandy Terminal. The operating results in 1999 also include pre-tax gains of $6.5 million related to settlements with various suppliers. Operating results in 1999 were negatively affected by production shortfalls, deterioration of mining conditions and resulting lower operating income from the Company's idled Dal-Tex mine complex. Operating results were also negatively affected in 1999 at Mingo Logan, where, despite another strong year from the Company's longwall operation (Mountaineer Mine) which contributed $46.6 million of income to the Company's results of operations, 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 the Alma seam during 1999. The Mountaineer Mine contributed 12% and 15% of the Company's coal sales revenues in 1999 and 1998, respectively. During the first half of 1999, the Company continued to experience production shortfalls and operating challenges at its Black Thunder mine in Wyoming due to geologic, water drainage and 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 shut-down in January of 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 (see discussion above) and additional legal and other expenses related to surface-mining issues in West Virginia.

Sales Contract 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 transaction.

Income Taxes The income tax benefit recorded in 1999 resulted from the generation of the pre-tax loss (primarily attributable to the asset impairment and restructuring charges) offset by the valuation allowance recorded against the Company's deferred tax assets. The Company's effective tax rate is also 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 was primarily attributable to the additional sales that resulted from the inclusion of an entire year of Arch Western compared to only seven months in 1998.

OUTLOOK

West Elk Mine On July 12, 2000, the Company resumed production at the West Elk underground mine in Gunnison County, Colorado, and after experiencing geological conditions that hindered production during the fourth quarter, the mine returned to normal levels of production by the end of the year. West Elk had been idle since January 28, 2000, following the detection of combustion-related gases in a portion of the mine. The Company 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 the Company reclaims drilling sites and roads and eventually dismantles pumping equipment. To date, the Company has received and recognized aggregate pre-tax partial insurance payments of $31 million that cover a portion of the losses incurred at West Elk. The Company expects to receive additional insurance payments under its property and business interruption policy. Any additional recovery, however, will depend on resolution of the Company's 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. The U.S. Court of Appeals for the Fourth Circuit heard oral arguments in this case on December 7, 2000 and is expected to render an opinion in the first half of 2001. The Company 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, the Company and other coal producers in West Virginia may be forced to close all or a portion of coal 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 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, which is not expected to occur until mid-2001 at the earliest, and the injunction is withdrawn by the Fourth Circuit, then the Company may determine to 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 Company now believes that longwall mining at that operation can be extended for an additional twelve months.

Coal Markets Although the Company continues to be adversely affected by coal contracts priced during weak market conditions, there have been developments that may translate into improved market conditions for coal in the future. A normal winter during 2000/2001 and continued growth of the "digital" economy have created an increased demand for electricity. In addition, as of December 2000, the price of natural gas has more than doubled since December 1999. Hydroelectric power conditions are weaker than normal due to dry conditions. No domestic nuclear plants are currently in the permitting stage, while the anticipated construction of several new coal-fired power plants has been announced. Also, since late July, quoted and spot prices for coal produced in the regions in which the Company operates have risen. Although the Company has virtually all of its anticipated 2001 production already committed and priced, approximately 30%, 50% and 75% of its 2002, 2003 and 2004 estimated production, respectively, will be available for market pricing.

The Company continues to take steps to match production levels to market needs. The Company has ceased production at its Coal Creek surface mine in Campbell County, Wyoming. The resulting idling does not have a material impact on the Company's revenues or results of operations.

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 than high-sulfur coal 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 the Company's western coal production and approximately half of its eastern production is compliance quality. Approximately 68% of the Company's coal reserves are compliance quality while an additional 22% is low sulfur, or coal that emits between 1.2 and 2.5 pounds of sulfur dioxide when burned.

Chief Objectives The Company continues to focus on realizing the potential of its assets and maximizing stockholder value by making decisions based upon the following: (1) aggressively paying down debt, (2) further strengthening cash generation, (3) improving earnings, (4) increasing productivity, (5) reducing costs, and (6) building on its leading position at its large low-cost mines in its target coal-producing basins. The Company is aggressively pursuing cost savings which, together with improved productivity, are designed to enable the Company to achieve these financial objectives. In addition to the corporate-wide restructuring in late 1999 that resulted in a substantial reduction in operating costs for the current year and which the Company expects will also substantially reduce operating costs in future years, the Company recently initiated a cost reduction effort targeting key cost drivers at each of the Company's captive mines which is expected to result in cost savings in 2001. The Company is also exploring Internet-based solutions that could reduce costs, especially in the procurement area.

The Company repaid $30.2 million of debt during 2000 despite lower cash generation and increased expenditures related to the idling of the West Elk mine, a net payment of $31.6 million to purchase assets out of an operating lease, and making the second of five annual payments of $31.6 million for the Thundercloud federal reserve lease (which was acquired in 1998). The Company anticipates continuing to make substantial progress toward reducing debt in the future.

Public Stock Offering On February 22, 2001, the Company completed a public offering of 9,927,765 shares of its common stock including the remaining 4,756,968 shares held by its then largest stockholder, Ashland Inc. The net proceeds of $93.2 million from the shares sold directly by the Company from the offering were used to pay down debt.

LIQUIDITY AND CAPITAL RESOURCES

The Company generally satisfies its working capital requirements and funds its capital expenditures and debt-service obligations 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, anticipated capital expenditures and scheduled debt payments for at least the next several years. The Company's ability to satisfy debt service obligations, 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.

The following is a summary of cash provided by or used in each of the indicated types of activities during the past three years:

Year ended December 31 (in thousands)	2000	1999	1998
Cash provided by (used in):			
Operating activities	$ 135,772	$ 279,963	$ 188,023
Investing activities	(107,496)	(84,358)	(1,271,371)
Financing activities	(25,531)	(219,736)	1,101,585

Cash provided by operating activities decreased in 2000 compared to 1999 due to decreases in cash provided from equity investments and coal sales, along with increased costs resulting from the temporary idling of the West Elk mine and increased fuel costs. 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 $83.2 million cash distribution from Canyon Fuel to the Company during 1999. Proceeds from the amendment had no effect on net income. Cash provided by operating activities increased in 1999 compared to 1998 primarily as a result of increased operating activity from the Arch Western transaction (which was included for the full year of 1999 compared to only seven months in 1998), including distributions from the Company's investment in Canyon Fuel. This increase was partially offset by increased interest payments resulting from increased borrowings associated with the Arch Western transaction and less favorable operating results in 1999 as discussed previously.

Cash used in investing activities increased in 2000 compared to 1999 primarily as a result of the Company making the second of five annual payments under the Thundercloud federal lease, which is part of the Black Thunder mine in Wyoming. The first payment was made at the time of the acquisition of the lease in 1998. The remaining three payments are due each January of the years 2001 through 2003. In addition, during 2000, the Company purchased all remaining assets under a 1998 sale and leaseback arrangement for $45.0 million. The decrease in cash used for investing activities in 1999 compared to 1998 primarily resulted from the payment of $1.1 billion in cash in the Arch Western transaction.

Cash provided by (used in) financing activities reflects reduced debt payments in 2000 compared to the prior year. In addition, during the second quarter of 2000, the Company entered into a sale and leaseback of certain equipment which resulted in net proceeds of

$13.4 million. Dividend payments have decreased $8.8 million in 2000 as compared to 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 the Company's goal to aggressively pay down debt. Cash used in financing activities during 1999 principally reflects debt reduction while cash provided by financing activities in 1998 reflects an increase in borrowings of $1.1 billion associated with the Arch Western transaction.

Expenditures for property, plant and equipment were $115.1 million, $98.7 million and $141.7 million for 2000, 1999 and 1998, respectively. 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.

At December 31, 2000, there was $235.6 million available 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 to 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 required the pledging of assets to collateralize the term loan and the $600 million revolver. 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 December 31, 2000.

At December 31, 2000, debt amounted to $1.151 billion, or 84% of capital employed, compared to $1.181 billion, or 83% of capital employed, at December 31, 1999. Based on the current level of consolidated indebtedness and prevailing interest rates, the Company's debt service in 2001, including interest payments and expected payments associated with the revolving credit facility and the debt reduction from the proceeds of the public stock offering, is estimated to be approximately $250 million.

The Company periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At December 31, 2000, there were $20 million of such agreements in effect, none of which were outstanding.

The Company is exposed to market risk associated with interest rates. At December 31, 2000, debt included $1.142 billion of floating-rate debt, for which the rate of interest is, at the Company's 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, the Company enters into interest-rate swap agreements to modify the interest-rate characteristics of outstanding Company debt. At December 31, 2000, the Company had interest-rate swap agreements having a total notional value of $767.5 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 6.16% (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 agreements, thereby adjusting the effective interest rate on the Company's debt. The fair value of the swap agreements is 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. The remaining terms of the swap agreements at December 31, 2000 ranged from 20 to 54 months. All instruments are entered into for other than trading purposes.

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 in Note 1 to the consolidated financial statements.

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 December 31, 2000 with all other variables held constant. A 100-basis-point decrease in market interest rates would result in an increase in the net financial instrument position of the fixed portion of debt (the swaps) of $13.2 million at December 31, 2000. Based on the variable-rate debt included in the Company's debt portfolios as of December 31, 2000, after considering the effect of the swap agreements, a 100-basis-point increase in interest rates would result in an annualized additional $3.7 million of interest expense incurred based on December 31, 2000 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. These adjustments are recorded to cost of coal sales. Adjustments in 2000 resulted in $9.2 million of pre-tax gains. The adjustments occurred principally as a result of recent permit revisions at the Company's idle mine properties in Illinois. Adjustments recorded in 1999 resulted in a $4.3 million charge to expense. 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 On July 16, 1998, ten individuals and The West Virginia
- ------------------
Highlands Conservancy filed suit in the U.S. District Court for the Southern District of West Virginia against the director of the West Virginia Division of Environmental Protection ("DEP") and officials of the U.S. Army Corps of Engineers ("Corps") alleging violations of SMCRA, the Clean Water Act and the National Environmental Policy Act of 1969 ("NEPA"). Specifically, plaintiffs made the following allegations in the suit: (i) the Corps violated NEPA by approving mining permits without the preparation of an environmental impact statement ("EIS") under NEPA that would evaluate the environmental effects of mountaintop mining and the construction of valley fills; (ii) the Corps violated the Clean Water Act by issuing generic Section 404 dredge and fill permits rather than site-specific individual permits; (iii) the West Virginia DEP has failed to require the restoration of mined lands to approximate original contour and has not enforced approved post-mining land uses following reclamation; and (iv) the West Virginia DEP lacked authority to issue permits for the construction of valley fills.

Nine permits held by four indirect, wholly-owned subsidiaries of the Company were identified in the complaint as violating the legal standards that the plaintiffs requested the court to interpret. In addition, pending permit applications for the Company's Dal-Tex mining operations, which are operated by its subsidiary, Hobet Mining, Inc., were specifically identified as permits that should be enjoined from issuance. These permit applications, known as the Spruce Fork permits, include a SMCRA mining permit application requesting authorization from the West Virginia DEP to commence surface mining operations and a Section 404 permit application requesting authorization from the Corps to construct a valley fill. The Company intervened in the lawsuit in support of the Corps and the West Virginia DEP on August 6, 1998.

Settlement Agreement A settlement between the plaintiffs and the Corps, which was reached on December 23, 1998, resolved the Clean Water Act and NEPA claims against the Corps, except those relating to the Spruce Fork permits. The settlement agreement requires the Corps, in cooperation with other agencies, to prepare a programmatic EIS on the effects of valley fills on streams and the environment. This EIS was scheduled to be completed by January 2001. This date, however, was not met, and there has been no indication from the Corps as to when the EIS will be completed. Until it is completed, an individual Clean Water Act Section 404 dredge and fill permit must be obtained prior to the construction of any valley fill greater than 250 acres. The Company's Hobet Mining subsidiary later agreed to apply for an individual Section 404 permit for the Dal-Tex valley fill, which will require the preparation of an EIS to evaluate the effects of the valley fill on the environment.

Preliminary Injunction Subsequent to the settlement agreement, the West Virginia DEP approved the Spruce Fork SMCRA permit. Plaintiffs sought a preliminary injunction staying the Spruce Fork permit and enjoining the Company from future operations on the permit until a full trial on the merits could be held. The district court issued the preliminary injunction on March 3, 1999. As a result, the Company idled the Dal-Tex mine on July 23, 1999.

Consent Decree On July 26, 1999, the plaintiffs and the West Virginia DEP submitted a proposed consent decree which would resolve the remaining issues in the case, except those relating to the West Virginia DEP's authority to issue permits for the construction of valley fills. Pursuant to the proposed consent decree, the West Virginia DEP agreed in principle to amend its regulations and procedures to correct alleged deficiencies. In addition, the parties agreed in principle on a new definition of approximate original contour as it applies to mountaintop mining, as well as to certain regulatory changes involving post-mining land uses. The Company's Hobet Mining subsidiary agreed as part of the consent decree to revise portions of its Spruce Fork permit applications to conform to the new definition of approximate original contour to be adopted by the West Virginia DEP. After inviting public comment on the proposed consent decree, the court entered the consent decree in a final order on February 17, 2000, and the West Virginia legislature approved the West Virginia DEP's proposed statutory and regulatory changes to implement the consent decree on April 3, 2000.

Permanent Injunction On October 20, 1999, the district court addressed the remaining counts in the plaintiff's complaint by issuing a permanent injunction against the West Virginia DEP enjoining the issuance of any new permits that authorize the construction of valley fills as part of mining operations. The West Virginia DEP complied with the injunction by issuing an order banning the issuance of permits for nearly all new valley fills and the expansion of existing valley fills. The West Virginia DEP also filed an appeal of the district court's decision with the U.S. Court of Appeals for the Fourth Circuit. On October 29, 1999, the district court granted a stay of its decision, pending the outcome of the appeal. The West Virginia DEP rescinded its administrative order on November 1, 1999 in response to the district court's action.

The U.S. Court of Appeals for the Fourth Circuit heard oral arguments in this case on December 7, 2000 and is expected to render an opinion in the first half of 2001. The Company cannot predict the outcome of the West Virginia DEP's appeal. If the district court's decision is upheld, the Company, and other coal producers, may be forced to close all or a portion of mining operations in West Virginia, to the extent those operations are dependent on the use of valley fills. If the Company is successful on appeal, then it could be required to complete the EIS for the Section 404 dredge and fill permit and comply with the conditions imposed on the Spruce Fork permit as a result of the consent decree, each of which could delay the issuance of the Spruce Fork permit and, consequently, the reopening of the mine until mid-2001 at the earliest. If all necessary permits are issued, the Company may determine to reopen the mine 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 that are sought by the Company's Mingo Logan subsidiary 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. A hearing was held in late February and early March 2001 in the plaintiffs' motion for a preliminary injunction seeking to enjoin the DEP's decision to issue the permits. On March 8, 2001, the Court denied the plaintiffs' motion for a preliminary injunction. If the plantiffs 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 underground operations.

Lone Mountain Litigation On October 24, 1996, the rock strata overlaying an
- ------------------------
abandoned underground mine adjacent to the coal-refuse impoundment used by the Lone Mountain preparation plant failed, resulting in the discharge of approximately 6.3 million gallons of water and fine coal slurry into a tributary of the Powell River in Lee County, Virginia. The U.S. Department of the Interior notified the Company of its intention to file a civil action under the Clean Water Act and the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") to recover alleged natural resource damages suffered as a result of the discharge. The Company and the Interior

Department have reached an agreement in principle to settle this matter, which would require a payment of $2.5 million by the Company. The settlement is subject to the Company and the Interior Department entering into a definitive agreement. The Interior Department initiated the final administrative steps to complete settlement of this claim, and following a period of public comment, the Company expects to make the settlement payment during the first quarter of 2001. The Company's consolidated balance sheet as of December 31, 2000 reflects a reserve for the full amount of this settlement.

CERTAIN TRENDS AND UNCERTAINTIES

SUBSTANTIAL LEVERAGE - VARIABLE INTEREST RATE - COVENANTS

As of December 31, 2000, the Company had outstanding consolidated indebtedness of $1.151 billion, representing approximately 84% of the Company's capital employed. As a result, the Company has significant debt service obligations, and the terms of its credit agreements limit its flexibility and result in a number of limitations on the Company. Aggregate scheduled future principal payments on the Company's indebtedness are $33.6 million in 2001, $60.5 million in 2002, $1.1 billion in 2003, $.6 million in 2004, $.6 million in 2005 and $2.9 million thereafter. 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 and 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; and (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 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 had a net loss of $12.7 million for the year ended December 31, 2000. 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 continuing 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 continue to 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. 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 will overturn the district court's decision in such legal action or that a legislative or other solution will be achieved. If the district court's ruling is not overturned or a legislative or other solution is not achieved, 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 2000 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 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. 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. Further developments in connection with the Kyoto protocol could increase the Company's costs to mine coal.

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 is also proposing to implement stricter ozone standards by 2003. The implementation of the standards 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-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, alternative 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

The Company sells a substantial portion of its coal pursuant to long-term coal supply agreements, which are contracts with a term greater than 12 months. As a consequence, the Company may experience fluctuations in operating results as a result of the expiration or termination of, or sales price redeterminations or suspensions of deliveries under, these coal supply agreements. In addition, the increasingly short terms of sales contracts and the consequent absence of price adjustment provisions in such contracts make it more likely that inflation-related increases in mining costs during the contract term will not be recovered by the Company through a later price adjustment. In 2000, sales of coal under long-term contracts accounted for 78% of the Company's total revenues. Some of these contracts include pricing which is above, and, in some cases, materially above, current market prices. The Company currently supplies 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, 2000, approximately $18.4 million of the Company's operating income related to these contracts. The Company expects 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.

The Company 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 the Company's, and in some instances the customer's control, including utility deregulation. If the parties to any long-term contracts with the Company were to modify, suspend or terminate those contracts, the Company's profitability would decline to the extent that it is unable to find alternative customers at a similar or higher level of profitability.

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 and operating income represented by such mines. Mingo Logan's Mountaineer Mine is estimated to exhaust its longwall mineable reserves in 2003. The Mountaineer Mine generated $39.3 million of the Company's total operating income in 2000.

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. For example, the Company was forced to temporarily idle the West Elk mine in Colorado for more than five months this year following the detection of combustion gases in a portion of the mine. The temporary closure of this mine adversely affected the Company's operating results, as the Company 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 the Company continues to reclaim drilling sites and roads and eventually dismantle pumping equipment. Through December 2000, the Company received and recognized an aggregate of $31 million pre-tax partial insurance payments. The Company expects to receive additional insurance payments under its property and business interruption policy. There may not be additional recovery, however, unless and until the claim is resolved with the insurance carrier, the timing of which is uncertain. In addition, 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 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 Arch Western acquisition, 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 Arch Western transaction. 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.

REPORT OF INDEPENDENT AUDITORS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
ARCH COAL, INC.

We have audited the accompanying consolidated balance sheets of Arch Coal, Inc. and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arch Coal, Inc. and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the financial statements, in 1999, the Company changed its method of accounting for depreciation of its preparation plants and loadouts.

/s/ Ernst & Young LLP
St. Louis, Missouri
January 24, 2001

REPORT OF MANAGEMENT

The management of Arch Coal, Inc. is responsible for the preparation of the consolidated financial statements and related financial information in this annual report. The financial statements are prepared in accordance with accounting principles generally accepted in the United States and necessarily include some amounts that are based on management's informed estimates and judgments, with appropriate consideration given to materiality.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of a system of internal accounting controls should not exceed the value of the benefits derived. The Company has a professional staff of internal auditors who monitor compliance with and assess the effectiveness of the system of internal accounting controls.

The Audit Committee of the Board of Directors, composed of directors who are free from relationships that may impair their independence from Arch Coal, Inc., meets regularly with management, the internal auditors, and the independent auditors to discuss matters relating to financial reporting, internal accounting control, and the nature, extent and results of the audit effort. The independent auditors and internal auditors have full and free access to the Audit Committee, with and without management present.

STEVEN F. LEER
President and Chief Executive Officer

ROBERT J. MESSEY
Senior Vice President and Chief Financial Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31 (in thousands of dollars except per share data)	2000	1999	1998
REVENUES			
Coal sales	$ 1,342,171	$ 1,509,596	$ 1,428,171
Income from equity investment	12,837	11,129	6,786
Other revenues	49,613	46,657	70,678
	1,404,621	1,567,382	1,505,635
COSTS AND EXPENSES			
Cost of coal sales	1,237,378	1,426,105	1,313,400
Selling, general and administrative expenses	38,887	46,357	44,767
Amortization of coal supply agreements	39,803	36,532	34,551
Write-down of impaired assets	-	364,579	-
Other expenses	14,569	20,835	25,070
	1,330,637	1,894,408	1,417,788
Income (loss) from operations	73,984	(327,026)	87,847
Interest expense, net:			
Interest expense	(92,132)	(90,058)	(62,202)
Interest income	1,412	1,291	756
	(90,720)	(88,767)	(61,446)
Income (loss) before income taxes, extraordinary loss and cumulative effect of accounting change	(16,736)	(415,793)	26,401
Benefit from income taxes	(4,000)	(65,700)	(5,100)
Income (loss) before extraordinary loss and cumulative effect of accounting change	(12,736)	(350,093)	31,501
Extraordinary loss from the extinguishment of debt, net of taxes	-	-	(1,488)
Cumulative effect of accounting change, net of taxes	-	3,813	-
NET INCOME (LOSS)	$ (12,736)	$ (346,280)	$ 30,013
Basic and diluted earnings (loss) per common share:			
Income (loss) before extraordinary item and cumulative effect of accounting change	$ (.33)	$ (9.12)	$ .79
Extraordinary loss from the extinguishment of debt, net of taxes	-	-	(.03)
Cumulative effect of accounting change, net of taxes	-	.10	-
Basic and diluted earnings (loss) per common share	$ (.33)	$ (9.02)	$ .76

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

CONSOLIDATED BALANCE SHEETS

December 31 (in thousands of dollars except share and per share data)	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,028	$ 3,283
Trade accounts receivable	141,727	162,802
Other receivables	38,540	25,659
Inventories	47,930	62,382
Prepaid royalties	2,262	1,310
Deferred income taxes	27,440	21,600
Other	13,963	8,916
Total current assets	277,890	285,952
Property, plant and equipment		
Coal lands and mineral rights	1,106,547	1,170,956
Plant and equipment	1,006,452	1,042,128
Deferred mine development	104,579	92,265
	2,217,578	2,305,349
Less accumulated depreciation, depletion and amortization	(787,525)	(826,178)
Property, plant and equipment, net	1,430,053	1,479,171
Other assets		
Prepaid royalties	17,500	--
Coal supply agreements	108,884	151,978
Deferred income taxes	179,343	182,500
Investment in Canyon Fuel	188,700	199,760
Other	30,244	33,013
Total other assets	524,671	567,251
Total assets	$ 2,232,614	$ 2,332,374
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 103,014	$ 109,359
Accrued expenses	152,303	145,561
Current portion of debt	60,129	86,000
Total current liabilities	315,446	340,920
Long-term debt	1,090,666	1,094,993
Accrued postretirement benefits other than pension	336,663	343,993
Accrued reclamation and mine closure	118,928	129,869
Accrued workers' compensation	78,593	105,190
Accrued pension cost	19,287	22,445
Obligations under capital leases	11,348	-
Other noncurrent liabilities	41,809	53,669
Total liabilities	2,012,740	2,091,079
Stockholders' equity		
Common stock, $.01 par value, authorized 100,000,000 shares, issued 39,714,333 and 39,705,628 shares	397	397
Paid-in capital	473,428	473,335
Retained deficit	(234,980)	(213,466)
Less treasury stock, at cost, 1,541,146 shares	(18,971)	(18,971)
Total stockholders' equity	219,874	241,295
Total liabilities and stockholders' equity	$ 2,232,614	$ 2,332,374

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Three years ended December 31, 2000 (in thousands of dollars except share and per share data)	Common Stock	Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock at Cost	Total
BALANCE AT DECEMBER 31, 1997	$ 397	$ 472,425	$ 138,676	$ -	$ 611,498
Net income			30,013		30,013
Dividends paid ($.46 per share)			(18,266)		(18,266)
Issuance of 47,635 shares of common stock under the stock incentive plan		691			691
Treasury stock purchases (333,952 shares)				(5,720)	(5,720)
BALANCE AT DECEMBER 31, 1998	397	473,116	150,423	(5,720)	618,216
Net loss			(346,280)		(346,280)
Dividends paid ($.46 per share)			(17,609)		(17,609)
Issuance of 95 shares of common stock under the stock incentive plan		1			1
Treasury stock purchases (1,396,700 shares) net of issuances (189,506 shares)		218		(13,251)	(13,033)
BALANCE AT DECEMBER 31, 1999	397	473,335	(213,466)	(18,971)	241,295
Net loss			(12,736)		(12,736)
Dividends paid ($.23 per share)			(8,778)		(8,778)
Issuance of 8,705 shares of common stock under the stock incentive plan		93			93
BALANCE AT DECEMBER 31, 2000	$ 397	$ 473,428	$ (234,980)	$ (18,971)	$ 219,874

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (in thousands of dollars)	2000	1999	1998
OPERATING ACTIVITIES			
Net income (loss)	$ (12,736)	$ (346,280)	$ 30,013
Adjustments to reconcile to cash provided by operating activities:			
Depreciation, depletion and amortization	201,512	235,658	204,307
Prepaid royalties expensed	7,322	14,217	19,694
Net gain on disposition of assets	(20,444)	(7,459)	(41,512)
Income from equity investment	(12,837)	(11,129)	(6,786)
Net distributions from equity investment	23,897	83,178	18,850
Cumulative effect of accounting change	-	(3,813)	-
Write-down of impaired assets	-	364,579	-
Changes in operating assets and liabilities	(29,420)	(69,471)	(24,671)
Other	(21,522)	20,483	(11,872)
Cash provided by operating activities	135,772	279,963	188,023
INVESTING ACTIVITIES			
Payments for acquisition	-	-	(1,126,706)
Addition to property, plant and equipment	(115,080)	(98,715)	(141,737)
Proceeds from coal supply agreements	8,512	14,067	-
Additions to prepaid royalties	(25,774)	(26,057)	(26,252)
Additions to notes receivable	-	-	(10,906)
Proceeds from disposition of property, plant and equipment	24,846	26,347	34,230
Cash used in investing activities	(107,496)	(84,358)	(1,271,371)
FINANCING ACTIVITIES			
Proceeds from (payments on) revolver and lines of credit	(30,198)	(37,884)	176,582
Net proceeds from (payments on) term loans	-	(151,210)	958,441
Payments on notes	-	-	(42,860)
Payments for debt issuance costs	-	-	(12,725)
Proceeds from sale and leaseback of equipment	13,352	-	45,442
Dividends paid	(8,778)	(17,609)	(18,266)
Proceeds from sale of common stock	93	-	691
Proceeds from sale of treasury stock	-	2,549	-
Purchases of treasury stock	-	(15,582)	(5,720)
Cash provided by (used in) financing activities	(25,531)	(219,736)	1,101,585
Increase (decrease) in cash and cash equivalents	2,745	(24,131)	18,237
Cash and cash equivalents, beginning of year	3,283	27,414	9,177
Cash and cash equivalents, end of year	$ 6,028	$ 3,283	$ 27,414
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for interest	$ 85,339	$ 100,781	$ 48,760
Cash paid (received) during the year for income taxes (refunds)	$ (1,316)	$ 11,251	$ 29,090

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Arch Coal, Inc. and its subsidiaries ("the Company"), which operate in the coal mining industry. The Company operates one reportable segment: the production of steam and metallurgical coal from surface and deep mines throughout the United States, for sale to utility, industrial and export markets. The Company's mines are primarily 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.

The membership interest in Canyon Fuel, LLC ("Canyon Fuel") are owned 65% by the Company and 35% by a subsidiary of ITOCHU Corporation, a Japanese corporation. The agreement which governs the management and operations of Canyon Fuel provides for a Management Board to manage its business and affairs. Generally, the Management Board acts by affirmative vote of the representatives of the members holding more than 50% of the membership interests. However, significant participation rights require either the unanimous approval of the members or the approval of representatives of members holding more than 70% of the membership interests. Those matters which are considered significant participation rights include the following:

- approval of the Annual Business Plan;
- approval of significant capital expenditures;
- approval of significant coal sales contracts;
- approval of the institution of or the settlement of litigation;
- approval of incurrence of indebtedness;
- approval of significant mineral reserve leases;
- selection and removal of the CEO, CFO, or General Counsel;
- approval of any material change in the business of Canyon Fuel;
- approval of any disposition whether by sale, exchange, merger, consolidation, license or otherwise, and whether directly or indirectly, of all or any portion of the assets of Canyon Fuel other than in the ordinary course of business; and
- approval of a request that a member provide additional services to Canyon Fuel.

The Canyon Fuel agreement also contains various restrictions on the transfer of membership interest in Canyon Fuel. As a result of these super-majority voting rights, the Company's 65% ownership of Canyon Fuel is accounted for on the equity method in the consolidated financial statements. Income from Canyon Fuel is reflected in the consolidated statements of operations as income from equity investments. (See additional discussion in "Investment in Canyon Fuel" in Note 5.)

The Company's 17.5% partnership interest in Dominion Terminal Associates is accounted for on the equity method in the consolidated balance sheets. Allocable costs of the partnership for coal loading and storage are included in other expenses in the consolidated statements of operations.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are stated at cost. Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased.

INVENTORIES

Inventories are comprised of the following:

December 31 (in thousands)	2000	1999
Coal	$ 21,185	$ 28,183
Supplies, net of allowance	26,745	34,199
	$ 47,930	$ 62,382

Coal and supplies inventories are valued at the lower of average cost or market. Coal inventory costs include labor, supplies, equipment costs and operating overhead. The Company has recorded a valuation allowance for slow-moving and obsolete supplies inventories of $19.8 million and $23.5 million at December 31, 2000 and 1999, respectively.

COAL ACQUISITION AND PREPAID ROYALTIES

Coal lease rights obtained through acquisitions are capitalized and amortized primarily by the units-of-production method over the estimated recoverable reserves. Amortization occurs either as the Company mines on the property or as others mine on the property through subleasing transactions.

Rights to leased coal lands are often acquired through royalty payments. Where royalty payments represent prepayments recoupable against production, they are capitalized, and amounts expected to be recouped within one year are classified as a current asset. As mining occur on these leases, the prepayment is charged to cost of coal sales.

COAL SUPPLY AGREEMENTS

Acquisition costs allocated to coal supply agreements (sales contracts) are capitalized and amortized on the basis of coal to be shipped over the term of the contract. Value is allocated to coal supply agreements based on discounted cash flows attributable to the difference between the above market contract price and the then-prevailing market price. Accumulated amortization for sales contracts was $171.2 million and $131.4 million at December 31, 2000 and 1999, respectively.

EXPLORATION COSTS

Costs related to locating coal deposits and determining the economic mineability of such deposits are expensed as incurred.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Interest costs applicable to major asset additions are capitalized during the construction period. Expenditures which extend the useful lives of existing plant and equipment are capitalized. Costs of purchasing rights to coal reserves and developing new mines or significantly expanding the capacity of existing mines are capitalized. These costs are amortized using the units-of-production method over the estimated recoverable reserves that are associated with the property being benefited. At December 31, 2000, all mineral reserves of the Company that are capitalized are being amortized on the units-of-production method through Company operations or through sublease transactions (for which the Company receives royalty revenue) except for a block of 197 million tons located adjacent to its Hobet 21 operations. The current value associated with this property is $177.8 million which the Company plans to recover via mining operations in the future. Except for preparation plants and loadouts, plant and equipment are depreciated principally on the straight-line method over the estimated useful lives of the assets, which range from three to 20 years. Effective January 1, 1999, preparation plants and loadouts are depreciated using the units-of-production method over the estimated recoverable reserves subject to a minimum level of depreciation (see additional discussion in Note 3, "Change in Accounting Method"). Prior to January 1, 1999, preparation plants and loadouts were depreciated on a straight-line basis over their estimated useful lives.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on the straight-line method over the term of the lease.

ASSET IMPAIRMENT

If facts and circumstances suggest that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the value of the asset will not be recoverable, as determined based on projected undiscounted cash flows related to the asset over its remaining life, then the carrying value of the asset is reduced to its estimated fair value. (See additional discussion in Note 2, "Changes in Estimates and Other Non-Recurring Revenues and Expenses.")

REVENUE RECOGNITION

Coal sales revenues include sales to customers of coal produced at Company operations and coal purchased from other companies. The Company recognizes revenue from coal sales at the time title passes to the customer. Revenues from sources other than coal sales, including gains and losses from dispositions of long-term assets, are included in other revenues and are recognized as performed or otherwise earned.

INTEREST-RATE SWAP AGREEMENTS

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. The Company accrues amounts to be paid or received under interest-rate swap agreements over the lives of the agreements. Such amounts are recognized as adjustments to interest expense over the lives of agreements, thereby adjusting the effective interest rate on the Company's debt. The fair values 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 sheets (in other long-term liabilities) and amortized as an adjustment to interest expense over the remaining original term of the terminated swap agreement.

INCOME TAXES

Deferred income taxes are based on temporary differences between the financial statement and tax basis of assets and liabilities existing at each balance sheet date using enacted tax rates for years during which taxes are expected to be paid or recovered.

STOCK-BASED COMPENSATION

These financial statements include the disclosure requirements of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation ("FAS 123"). With respect to accounting for its stock options, as permitted under FAS 123, the Company has retained the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related Interpretations.

2. CHANGES IN ESTIMATES AND OTHER NON-RECURRING REVENUES AND EXPENSES

The Company's operating results in 2000 include income from the recovery of $31.0 million in partial insurance settlements under the Company's property and business interruption insurance policy. The payments offset a portion of the loss 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 in a portion of the mine. The Company expects to receive additional insurance payments under its property and business interruption policy. Any additional recovery, however, will depend on resolution of the claim with the insurance carrier, the timing of which is uncertain. As a result of permit revisions at its idle mine properties in Illinois, the Company reduced its reclamation liability at Arch of Illinois by $7.8 million during 2000. In addition, the Internal Revenue Service ("IRS") issued a notice during 2000 outlining the procedures for obtaining tax refunds on certain excise taxes paid by the industry on export sales tonnage. The notice is a result of a 1998 federal district court decision that found such taxes to be unconstitutional. The Company recorded $12.7 million of income related to these excise tax recoveries. As a result of adjustments to employee postretirement medical benefits, the Company was able to recognize $9.8 million of pre-tax curtailment gains resulting from previously unrecognized postretirement benefit changes which occurred from plan amendments in previous years. The Company also settled certain workers' compensation liabilities with the State of West Virginia resulting in pre-tax gains of $21.8 million. This was partially offset by adjustments to other workers' compensation liabilities resulting from changes in estimates which caused increases to the liability of $13.5 million.

In 1999, the Company recorded pre-tax charges of $23.1 million related to (i) the restructuring of its administrative workforce; (ii) the closure of its Dal-Tex mining operation in West Virginia due to the inability to secure the necessary permits to continue ongoing mining; and (iii) the closure of several mines in Kentucky (Coal-Mac) and the one remaining underground mine in Illinois (Arch of Illinois) due to depressed coal prices, caused in part by increased competition from western coal mines. 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 the Company's consolidated statement of operations. The restructuring of the administrative workforce included the elimination of 81 administrative jobs which was part of a corporate-wide effort to reduce general and administrative expenses. The mine closures included the termination of 161 employees. As of December 31, 1999, 74 administrative and 65 mine employees had been terminated, with the remainder being terminated during 2000. The following are the components of severance and other exit costs included in the restructuring charge along with related 1999 and 2000 activity:

(in thousands)	1999 Charge	Utilized in 1999	Balance December 31, 1999	Utilized in 2000	Balance December 31, 2000
Employee costs	$ 7,354	$ 704	$ 6,650	$ 5,184	$ 1,466
Obligations for non-cancelable lease payments	9,858	484	9,374	9,374	-
Reclamation liabilities	3,667	1,200	2,467	2,467	-
Depreciation acceleration	2,172	2,172	-	-	-
	$23,051	$ 4,560	$ 18,491	$ 17,025	$ 1,466

Except for the charge related to depreciation acceleration, all of the 1999 restructuring charge will require the Company to use cash. Also, except for amounts attributable to retiree healthcare, the Company utilized the balance of the amounts reserved for employee costs in 2000.

In addition, during the fourth quarter of 1999, the Company determined that significant changes were necessary in the manner and extent in which certain central Appalachia coal assets would be deployed. The anticipated changes were determined during the Company's annual planning process and were necessitated by the adverse legal and regulatory rulings related to surface mining techniques, as well as the continued negative pricing trends related to central Appalachia coal production experienced by the Company. As a result of the planned changes in the deployment of its long-lived assets in the central Appalachia region and pursuant to FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, the Company evaluated the recoverability of its active mining operations and its coal reserves for which no future mining plans existed. This evaluation indicated that the future undiscounted cash flows of three mining operations, Dal-Tex, Hobet 21 and Coal-Mac, and certain coal reserves with no future mining plans were below the carrying value of such long-lived assets. Accordingly, during the fourth quarter of 1999, the Company 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 for the three mining operations was based on anticipated future cash flows discounted at a rate commensurate with the risk involved. The estimated fair value for the coal reserves with no future mining plans was based upon the fair value of these properties to be derived from subleased operations. The impairment loss has been recorded as a loss from the write-down of impaired assets in the consolidated statements of operations.

3. CHANGE IN ACCOUNTING METHOD

Through December 31, 1998, plant and equipment had principally been depreciated on the straight-line method over the estimated useful lives of the assets, which ranged from three to 20 years. Effective January 1, 1999, depreciation on the Company's preparation plants and loadouts was computed using the units-of-production method, which is based upon units produced, subject to a minimum level of depreciation. These assets are usage-based assets, and their economic lives are typically based and measured on coal throughput. The Company believes 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 and also to the passage of time. This method, therefore, more appropriately matches production costs over the lives of the preparation plants and loadouts with coal sales revenue and results in a more accurate allocation of the cost of the physical assets to the periods in which the assets are consumed. The cumulative effect of applying the new method for years prior to 1999 is an increase to income of $3.8 million net-of-tax ($6.3 million pre-tax) reported as a cumulative effect of accounting change in the consolidated statement of operations for the year ended December 31, 1999. In addition, the net loss of the Company, excluding the cumulative effect of accounting change, for the year ended December 31, 1999 is $0.2 million less, or $.01 per share less, than it would have been if the Company had continued to follow the straight-line method of depreciation of equipment for preparation plants and loadouts.

4. ACQUISITION

On June 1, 1998, the Company acquired the Colorado and Utah coal operations of Atlantic Richfield Company ("ARCO") and simultaneously combined the acquired ARCO operations and the Company's Wyoming operations with ARCO's Wyoming operations in a new joint venture named Arch Western Resources, LLC ("Arch Western"). The principal operating units of Arch Western are Thunder Basin Coal Company, L.L.C., owned 100% by Arch Western, which operates two coal mines in the 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 ("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.

Arch Western is 99% owned by the Company and 1% owned by ARCO. The transaction was valued at approximately $1.14 billion and a wholly owned subsidiary of the Company is the managing member of Arch Western. The transaction was accounted for under the purchase method of accounting.

Results of operations of the acquired operations are included in the consolidated statements of operations effective June 1, 1998. The acquired ARCO operations continue to produce low-sulfur coal for sale to primarily domestic utility customers.

5. INVESTMENT IN CANYON FUEL

The following tables present unaudited summarized financial information for Canyon Fuel which, as part of the June 1, 1998 Arch Western transaction (described in Note 4), was acquired by the Company and is accounted for on the equity method.

CONDENSED INCOME STATEMENT INFORMATION

(in thousands)	Year Ended December 31, 2000	Year Ended December 31, 1999	Seven Months Ended December 31, 1998
Revenues	$ 259,101	$ 241,062	$ 155,634
Total costs and expenses	243,226	232,296	156,196
Net income	15,875	8,766	(562)
65% of Canyon Fuel net income	10,319	5,698	(365)
Effect of purchase adjustments	2,518	5,431	7,151
Arch Coal's income from its equity investment in Canyon Fuel	$ 12,837	$ 11,129	$ 6,786

CONDENSED BALANCE SHEET INFORMATION

December 31, 2000 (in thousands)	Canyon Fuel Basis	Arch Ownership of Canyon Fuel Basis	Arch Purchase Adjustments	Arch Basis
Current assets	$ 67,075	$ 43,599	$ (3,614)	$ 39,985
Noncurrent assets	411,146	267,245	(84,765)	182,480
Current liabilities	33,766	21,948	-	21,948
Noncurrent liabilities	20,658	13,428	(1,611)	11,817
Members' equity	$ 423,797	$ 275,468	$ (86,768)	$ 188,700
December 31, 1999				
Current assets	$ 61,212	$ 39,788	$ (3,615)	$ 36,173
Noncurrent assets	441,330	286,865	(83,511)	203,354
Current liabilities	37,065	24,092	-	24,092
Noncurrent liabilities	20,789	13,513	2,162	15,675
Members' equity	$ 444,688	$ 289,048	$ (89,288)	$ 199,760

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. The purchase adjustments are amortized consistent with the underlying assets of the joint venture.

6. ACCRUED EXPENSES

Accrued expenses consist of the following:

December 31 (in thousands)	2000	1999
Accrued payroll and related benefits	$ 22,500	$ 27,830
Accrued taxes other than income taxes	50,267	47,727
Accrued postretirement benefits other than pension	16,629	14,755
Accrued workers' compensation	10,438	11,144
Accrued interest	13,078	6,285
Accrued reclamation and mine closure	16,126	26,540
Other accrued expenses	23,265	11,280
	$ 152,303	$ 145,561

7. INCOME TAXES

Significant components of the provision (benefit) for income taxes are as follows:

December 31 (in thousands)	2000	1999	1998
Current:			
Federal	$ (4,882)	$ 6,796	$ 8,077
State	-	-	(260)
Total current	(4,882)	6,796	7,817
Deferred:			
Federal	3,067	(54,135)	(12,583)
State	(2,185)	(18,361)	(334)
Total deferred	882	(72,496)	(12,917)
	$ (4,000)	$ (65,700)	$ (5,100)

A reconciliation of the statutory federal income tax expense (benefit) on the Company's pretax income (loss) before extraordinary loss and cumulative effect of accounting change to the actual provision (benefit) for income taxes follows:

Year ended December 31 (in thousands)	2000	1999	1998
Income tax expense (benefit) at statutory rate	$ (5,858)	$(145,526)	$ 9,240
Percentage depletion allowance	(9,063)	(15,000)	(14,437)
State taxes, net of effect of federal taxes	(1,797)	(18,361)	(594)
Change in valuation allowance	5,515	112,345	-
AMT credit adjustment due to IRS exam	6,704	-	-
Other, net	499	842	691
	$ (4,000)	$ (65,700)	$ (5,100)

During 1998, the Company settled its protest of certain issues with the IRS for the federal income tax returns for the years 1990 and 1991. A final payment of $0.5 million was paid in June 1998 and charged against previously recorded reserves. The IRS audit of the federal income tax returns for the years 1992 through 1994 was completed during 1998 and agreed to at the examination level. A payment of $15.5 million was made in December 1998 in settlement of all issues. A significant number of the issues were timing in nature, and the tax paid related to these temporary differences is accounted for as a deferred tax asset, and the remaining tax and interest paid was charged against previously recorded reserves. A portion of the payment related to items that were settled in the 1987 through 1991 audits previously discussed. Permanent differences included a reduction in percentage depletion and a decrease in cost depletion related to the settlement for the adjustment in fair market value of certain coal reserves.

During 1999, the Company settled an audit of former Ashland Coal, Inc. for the years January 1995 through June 1997. A payment of $0.1 million was made in January 1999 in settlement of all issues.

On January 10, 2000, the Company received notice from the IRS of its proposed adjustments for tax years 1995 and 1996. The Company has agreed to pay $6.0 million including accrued interest to partially settle the audit but will continue to contest additional tax adjustments of $0.8 million with the IRS. The Company expects to pay the $6.0 million during the first quarter of 2001, which will be charged against previously recorded reserves.

The following is a summary of additional taxes paid for IRS audits and the related financial statement impact, none of which resulted in additional expense in the statements of operations subsequent to the tax years to which they relate:

(in millions)	Net Deferred Tax Asset	Taxes Payable	Income Tax Reserves	Cash Paid
1998	$ 6.1	$ 4.6	$ 5.3	$ 16.0
1999	0.2	-	(0.1)	0.1
2000	-	-	-	-
Totals	$ 6.3	$ 4.6	$ 5.2	$ 16.1

Management believes that the Company has adequately provided for any income taxes and interest which may ultimately be paid with respect to all open tax years.

Significant components of the Company's deferred tax assets and liabilities that result from carry forwards and temporary differences between the financial statement basis and tax basis of assets and liabilities are summarized as follows:

December 31 (in thousands)	2000	1999
DEFERRED TAX ASSETS:		
Postretirement benefits other than pension	$ 136,268	$ 139,796
Alternative minimum tax credit carryforward	80,017	91,604
Workers' compensation	30,301	43,029
Reclamation and mine closure	25,019	30,016
Net operating loss carryforwards	28,338	11,507
Plant, equipment, coal lands and mineral rights	17,784	40,104
Advance royalties	15,976	24,064
Other	55,035	25,514
Gross deferred tax assets	388,738	405,634
Valuation allowance	(117,860)	(112,345)
Total deferred tax assets	270,878	293,289
DEFERRED TAX LIABILITIES:		
Leases	20,371	21,990
Coal supply agreements	19,796	36,750
Other	23,928	30,449
Total deferred tax liabilities	64,095	89,189
Net deferred tax asset	206,783	204,100
Less current asset	27,440	21,600
Long-term deferred tax asset	$ 179,343	$ 182,500

The Company has a net operating loss carryforward for regular income tax purposes of $28.3 million which will expire in the years 2008 to 2014. The Company has an alternative minimum tax credit carryforward of $80.0 million which may carry forward indefinitely to offset future regular tax in excess of alternative minimum tax.

During 1999, the Company recorded a valuation allowance for a portion of its deferred tax assets that management believes, more likely than not, will not be realized. These deferred tax assets include a portion of the alternative minimum tax credits and some of the deductible temporary differences that will likely not be realized at the maximum effective tax rate. Such valuation allowance consisted of the following components at December 31 on the years indicated:

December 31 (in thousands)	2000	1999
Unrealized future deductible temporary differences	$ 85,372	$ 66,992
Unutilized alternative minimum tax credits	32,488	45,353
Valuation allowance at December 31	$ 117,860	$ 112,345

8. DEBT AND FINANCING ARRANGEMENTS

Debt consists of the following:

December 31 (in thousands)	2000	1999
Indebtedness to banks under revolving credit agreement, expiring May 31, 2003 (weighted average rate at December 31, 2000-8.00%, December 31, 1999-7.61%)	$ 332,100	$ 365,000
Variable rate fully amortizing term loan payable quarterly from July 1, 2001 through May 31, 2003 (weighted average rate at December 31, 2000-8.29%, December 31, 1999-7.49%)	135,000	135,000
Variable rate non-amortizing term loan due May 31, 2003 (weighted average rate at December 31, 2000-8.03%, December 31, 1999-7.85%)	675,000	675,000
Other	8,695	5,993
	1,150,795	1,180,993
Less current portion	60,129	86,000
Long-term debt	$1,090,666	$1,094,993

The Company has two five-year credit facilities: a $675 million non-amortizing term loan in the name of Arch Western, the entity owning the right to the coal reserves and operating assets acquired in the Arch Western transaction, and a $900 million credit facility in the name of the Company, including a $300 million fully amortizing term loan and a $600 million revolver. The $675 million term loan is secured by Arch Western's membership interests in its subsidiaries. The Arch Western credit facility is not guaranteed by the Company. The rate of interest on the borrowings under the agreements is, at the Company's option, the PNC Bank base rate or a rate based on LIBOR. The revolving credit agreement provides borrowing up to $600 million less any outstanding letters of credit. At December 31, 2000, the Company had $32.3 million in letters of credit outstanding which when combined with borrowings under the revolver allowed for $235.6 million of available borrowings under the revolver.

On August 23, 1999, the Company prepaid $105 million, or seven required quarterly installments, on the $300 million fully amortizing term loan. The next required quarterly installment will be July 1, 2001. The prepayments were funded by additional borrowings under the $600 million revolver.

The Company periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At December 31, 2000, there were $20 million of such agreements in effect, of which no borrowings were outstanding.

Except for amounts expected to be repaid in 2001, amounts borrowed under the revolving credit agreement and the bank lines of credit are classified as long-term as the Company has the intent and the ability to maintain these borrowings on a long-term basis. Aggregate required maturities of debt at December 31, 2000 for the next five years are $33.6 million in 2001, $60.5 million in 2002, $1.1 billion 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 required the pledging of assets to collateralize the term loan and the $600 million revolver. The assets pledged include equity interests wholly owned subsidiaries, certain real property interest, 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 December 31, 2000.

The Company enters into interest-rate swap agreements to modify the interest characteristics of the Company's outstanding debt. At December 31, 2000, the Company had interest-rate swap agreements having a total notional value of $767.5 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 6.16% (before the credit spread over LIBOR) and is receiving a weighted-average variable rate based upon 30-day and 90-day LIBOR. At December 31, 2000, the remaining terms of the swap agreements ranged from 20 to 54 months.

9. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts approximate fair value.

Debt: The carrying amounts of the Company's borrowings under its revolving credit agreement, lines of credit, variable rate term loans and other long-term debt approximate their fair value.

Interest rate swaps: The fair values of interest rate swaps are based on quoted prices, which reflect the present value of the difference between estimated future amounts to be paid and received. At December 31, 2000 and 1999, the fair value of these swaps is a liability and an asset of $7.9 million and $27.4 million respectively.

10. ACCRUED WORKERS' COMPENSATION

The Company is liable under the federal Mine Safety and Health Act of 1977, as amended, to provide for pneumoconiosis (black lung) benefits to eligible employees, former employees, and dependents with respect to claims filed by such persons on or after July 1, 1973. The Company is also liable under various states' statutes for black lung benefits. The Company currently provides for federal and state claims principally through a self-insurance program. Charges are being made to operations as determined by independent actuaries, at the present value of the actuarially computed present and future liabilities for such benefits over the employees' applicable years of service. In addition, the Company is liable for workers' compensation benefits for traumatic injuries which are accrued as injuries are incurred. Workers' compensation costs (credits) include the following components:

Year ended December 31 (in thousands)	2000	1999	1998
Self-insured black lung benefits:			
Service cost	$ 1,273	$ 1,671	$ 1,022
Interest cost	3,620	3,522	3,173
Net amortization and deferral	(1,486)	327	111
	3,407	5,520	4,306
Other workers' compensation benefits	6,942	13,241	19,396
	$ 10,349	$ 18,761	$ 23,702

The actuarial assumptions used in the determination of black lung benefits included a discount rate of 7.75% as of December 31, 2000 (7.50% and 7.00% as of December 31, 1999 and 1998, respectively) and a black lung benefit cost escalation rate of 4% in 2000, 1999 and 1998. In 2000, the Company settled several of its mining operations' self-insured workers' compensation and black lung liabilities with the State of West Virginia, resulting in pre-tax gains of $21.8 million. This was partially offset by adjustments to other workers' compensation liabilities resulting from changes in estimates which caused increases to the liability of $13.5 million.

Summarized below is information about the amounts recognized in the consolidated balance sheets for workers' compensation benefits:

December 31 (in thousands)	2000	1999
Actuarial present value for self-insured black lung:		
Benefits contractually recoverable from others	$ 2,144	$ 3,254
Benefits for Company employees	35,710	48,267
Accumulated black lung benefit obligation	37,854	51,521
Unrecognized net gain (loss)	6,252	4,890
	44,106	56,411
Traumatic and other workers' compensation	44,925	59,923
Accrued workers' compensation	89,031	116,334
Less amount included in accrued expenses	10,438	11,144
	$ 78,593	$ 105,190

Receivables related to benefits contractually recoverable from others of $2.1 million in 2000 and $3.3 million in 1999 are recorded in other long-term assets.

11. ACCRUED RECLAMATION AND MINE CLOSING COSTS

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. 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 both types of mining are related to reclaiming refuse and slurry ponds. 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 liability is based upon permit requirements and requires various estimates and assumptions, principally associated with costs and productivities. The Company accrued $10.4 million, $12.9 million and $12.5 million in 2000, 1999 and 1998, respectively, for current and final mine closure reclamation, excluding reclamation recosting adjustments identified below. Cash payments for final mine closure reclamation and current disturbances approximated $18.2 million, $15.8 million and $15.0 million for 2000, 1999 and 1998 respectively. Periodically, the Company reviews its entire environmental liability and makes necessary adjustments for permit changes as granted by state authorities, additional costs resulting from accelerated mine closures, and revisions to costs and productivities, to reflect current experience. These recosting adjustments are recorded in cost of coal sales. Adjustments included a net decrease in the liability of $9.2 million in 2000 and a net increase in the liability of $4.3 million and $4.9 million in 1999 and 1998, respectively. The Company's management believes it is making adequate provisions for all expected reclamation and other costs associated with mine closures.

12. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS
The Company has non-contributory defined benefit pension plans covering certain of its salaried and non-union hourly employees. Benefits are generally based on the employee's years of service and compensation. The Company funds the plans in an amount not less than the minimum statutory funding requirements nor more than the maximum amount that can be deducted for federal income tax purposes.

The Company also currently provides certain postretirement medical/life insurance coverage for eligible employees. Generally, covered employees who terminate employment after meeting eligibility requirements are eligible for postretirement coverage for themselves and their dependents. The salaried employee postretirement medical/life plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features such as deductibles and coinsurance. The postretirement medical plan for retirees who were members of the United Mine Workers of America ("UMWA") is not contributory. The Company's current funding policy is to fund the cost of all postretirement medical/life insurance benefits as they are paid. Summaries of the changes in the benefit obligations, plan assets (primarily listed stocks and debt securities) and funded status of the plans are as follows:

(in thousands)	Pension Benefits 2000	Pension Benefits 1999	Other Postretirement Benefits 2000	Other Postretirement Benefits 1999
CHANGE IN BENEFIT OBLIGATIONS				
Benefit obligations at January 1	$ 131,783	$ 139,433	$ 330,846	$ 335,823
Service cost	6,817	7,118	1,901	2,424
Interest cost	9,546	8,980	24,416	21,580
Benefits paid	(15,111)	(13,462)	(16,636)	(14,736)
Plan amendments	642	(435)	(13,658)	-
Other-primarily actuarial (gain) loss	5,387	(9,851)	(27,437)	(14,245)
Benefit obligations at December 31	$ 139,064	$ 131,783	$ 299,432	$ 330,846
CHANGE IN PLAN ASSETS				
Value of plan assets at January 1	$ 147,217	$ 127,274	$ -	$ -
Actual return on plan assets	(2,915)	31,308	-	-
Employer contributions	9,673	2,097	16,636	14,736
Benefits paid	(15,111)	(13,462)	(16,636)	(14,736)
Value of plan assets at December 31	$ 138,864	$ 147,217	$ -	$ -
FUNDED STATUS OF THE PLANS				
Accumulated obligations less plan assets	$ 200	$ (15,434)	$ 299,432	$ 330,846
Unrecognized actuarial gain	16,908	37,513	41,304	16,341
Unrecognized net transition asset	491	689	-	-
Unrecognized prior service gain	1,886	2,815	12,556	11,561
Net liability recognized	$ 19,485	$ 25,583	$ 353,292	$ 358,748
BALANCE SHEET LIABILITIES				
Prepaid benefit costs	$ -	$ -	$ -	$ -
Accrued benefit liabilities	19,485	25,583	353,292	358,748
Net liability recognized	19,485	25,583	353,292	358,748
Less current portion	198	3,138	16,629	14,755
Long term liability	$ 19,287	$ 22,445	$ 336,663	$ 343,993

The reduction in the postretirement benefit obligation in 2000 associated with the $13.7 million plan amendment resulted from: the July 2000 amendment changing some of the cost sharing provisions of the plan for salaried and non-union hourly participants; and an October 2000 plan amendment changing eligibility requirements to 10 years of service after reaching age 45 for salaried and non-union hourly participants. The latter plan change triggered a curtailment that resulted in the recognition of $9.8 million in previously unrecognized prior service gains. The $25 million increase in the 2000 unrecognized actuarial gain from 1999 resulted from plan assumption changes.

The actuarial loss in the 2000 pension benefit obligation resulted from changes in plan assumptions. The decrease in funded status in year 2000 resulted from decreased earnings on plan assets during the year, which also contributed to the reduction in the unrecognized actuarial gain as compared to the prior year.

	Pension Benefits		Other Postretirement Benefits	
December 31	2000	1999	2000	1999
Weighted average assumptions				
Discount rate	7.75%	7.50%	7.75%	7.50%
Rate of compensation increase	4.75%	5.25%	N/A	N/A
Expected return on plan assets	9.00%	9.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	5.00%	5.00%

The following table details the components of pension and other post-retirement benefit costs.

	Pension Benefits			Other Postretirement Benefits		
Year ended December 31 (in thousands)	2000	1999	1998	2000	1999	1998
Service cost	$ 6,817	$ 7,118	$ 5,841	$ 1,901	$ 2,424	$ 3,715
Interest cost	9,546	8,980	8,137	24,416	21,580	23,101
Expected return on plan assets	(10,915)	(9,929)	(7,521)	-	-	-
Other amortization and deferral	(3,047)	(1,122)	790	(5,382)	(9,628)	(2,884)
Curtailments	-	-	-	(9,756)	-	-
	$ 2,401	$ 5,047	$ 7,247	$ 11,179	$ 14,376	$ 23,932

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rate by one percentage point each year would increase the accumulated postretirement obligation as of December 31, 2000 by $35.7 million, or 11.9%, and the net periodic postretirement benefit cost for 2000 by $2.7 million, or 24.2%.

MULTI-EMPLOYER PENSION AND BENEFIT PLANS

Under the labor contract with the UMWA, the Company made payments of $0.1 million, $0.2 million and $1.3 million in 2000, 1999 and 1998, respectively, into a multi-employer defined benefit pension plan trust established for the benefit of union employees. Payments are based on hours worked and are expensed as paid. Under the Multi-employer Pension Plan Amendments Act of 1980, a contributor to a milti-employer pension plan may be liable, under certain circumstances, for its proportionate share of the plan's unfunded vested benefit (withdrawal liability). At December 31, 2000, the Company has been informed by the UMWA Health and Retirement Funds that the UMWA 1950 and 1974 Pension Plans do not have any unfunded vested benefits. Therefore, there is no withdrawal liability to the Company. The Company is not aware of any circumstances which would require it to reflect its share of unfunded vested pension benefits in its financial statements. At December 31, 2000, approximately 17% of the Company's workforce was represented by the UMWA. The current UMWA collective bargaining agreement expires at December 31, 2002.

The Coal Industry Retiree Health Benefit Act of 1992 ("Benefit Act") provides for the funding of medical and death benefits for certain retired members of the UMWA through premiums to be paid by assigned operators (former employers), transfers of monies in 1993 and

1994 from an overfunded pension trust established for the benefit of retired UMWA members, and transfers from the Abandoned Mine Lands Fund (funded by a federal tax on coal production) commencing in 1995. The Company treats its obligation under the Benefit Act as a participation in a multi-employer plan and recognizes expense as premiums are paid. The Company recognized $3.3 million in 2000, $2.7 million in 1999 and $3.7 million in 1998, in expense relative to premiums paid pursuant to the Benefit Act.

OTHER PLANS

The Company sponsors savings plans which were established to assist eligible employees in providing for their future retirement needs. The Company's contributions to the plans were $8.0 million in 2000, $8.4 million in 1999 and $6.8 million in 1998.

13. CAPITAL STOCK

Subsequent to the end of the year, the Company completed a public offering of 9,927,765 shares of its common stock. The offering consisted of 5,170,797 shares sold directly by the Company (including 1,541,146 shares held in the Company's treasury) and the remaining 4,756,968 shares held by its then largest stockholder, Ashland Inc. The net proceeds of $93.2 million from the shares sold directly by the Company were used to pay down debt.

On September 29, 1998, the Company's Board of Directors authorized the Company to repurchase up to 2 million shares of Company common stock. The timing of the purchases and the number of shares to be purchased are dependent on market conditions. Through December 31, 1999, the Company had acquired 1,726,900 shares under the repurchase program at an average price of $12.29 per share. There were no treasury share purchases during 2000.

On February 25, 1999, the Company's Board of Directors authorized the Company to amend its Automatic Dividend Reinvestment Plan to provide, among other things, that dividends may be reinvested in the Company's common stock by purchasing authorized but unissued shares (including treasury shares) directly from the Company, as well as by purchasing shares in the open market. On May 4, 1999, the Company filed a Form S-3 with the Securities and Exchange Commission to register 2,000,000 shares of the Company's common stock for issuance under the amended Plan. As reflected in the Prospectus filed therewith, the amended Plan provides that the Company determines whether the Plan's administrator should reinvest dividends in shares purchased in the open market or in shares acquired directly from the Company. The Company authorized and directed its Plan administrator (for all shareholders who had elected to reinvest their dividends in Company stock) to reinvest the June 15, 1999 and September 15, 1999 dividends in the Company's treasury stock. As of December 31, 2000 and 1999, approximately $2.5 million of the Company's dividends were reinvested in 189,506 shares of treasury stock. In accordance with the terms of the amended Plan, the treasury stock was reissued by the Company at the average of the high and low per share sales prices as reported by the New York Stock Exchange on the date of the dividend, which averaged $13.446 per share. The Company accounts for the issuance of the treasury stock using the average cost method.

14. STOCKHOLDER RIGHTS PLAN

On March 3, 2000, the Board of Directors adopted a stockholder rights plan under which preferred share purchase rights were distributed as a dividend to the Company's stockholders of record on March 20, 2000. The rights are exercisable only if a person or group acquires 20% or more of the Company's common stock (an "Acquiring Person") or announces a tender or exchange offer the consummation of which would result in ownership by a person or group of 20% or more of the Company's common stock. Each right entitles the holder to buy one one-hundredth of a share of a series of junior participating preferred stock at an exercise price of $42 or in certain circumstances allows the holder (expect for the Acquiring Person) to purchase the Company's common stock or voting stock of the

Acquiring Person at a discount. At its option, the Board of Directors may allow some or all holders (except for the Acquiring Person) to exchange their rights for Company common stock. The rights will expire on March 20, 2010, subject to earlier redemption or exchange by the Company as described in the plan.

15. STOCK INCENTIVE PLAN

On April 22, 1998, the stockholders ratified the adoption of the 1997 Stock Incentive Plan (the "Company Incentive Plan"), reserving 6,000,000 shares of Arch Coal common stock for awards to officers and other selected key management employees of the Company. The Company Incentive Plan provides the Board of Directors with the flexibility to grant stock options, stock appreciation rights (SARs), restricted stock awards, restricted stock units, performance stock or units, merit awards, phantom stock awards and rights to acquire stock through purchase under a stock purchase program ("Awards"). Awards the Board of Directors elect to pay out in cash do not count against the 6,000,000 shares authorized in the 1997 Stock Incentive Plan.

Stock options generally become exercisable in full or in part one year from the date of grant and are granted at a price equal to 100% of the fair market value of the stock on the date of grant. SARs entitle employees to receive a payment equal to the appreciation in market value of the stated number of common shares from the SARs' exercise price to the market value of the shares on the date of its exercise. Unexercised options and SARs lapse 10 years after the date of grant. Restricted stock awards and restricted stock units entitle employees to purchase shares or stock units at a nominal cost. Such awards entitle employees to vote shares acquired and to receive any dividends thereon, but such shares cannot be sold or transferred and are subject to forfeiture if employees terminate their employment prior to the prescribed period, which can be from one to five years. Restricted stock units generally carry the same restrictions and potential forfeiture, but are generally paid in cash upon vesting. Merit awards are grants of stock without restriction and at a nominal cost. Performance stock or unit awards can be earned by the recipient if the Company meets certain pre-established performance measures. Until earned, the performance awards are nontransferable, and when earned, performance awards are payable in cash, stock, or restricted stock as determined by the Company's Board of Directors. Phantom stock awards are based on the appreciation of hypothetical underlying shares or the earnings performance of such shares and may be paid in cash or in shares of common stock.

As of December 31, 2000, performance units and stock options were the only types of awards granted. As of December 31, 2000, 2.1 million performance units had been granted under the plan. The performance awards will be earned by participants based on Company performance for .4 million and 1.7 million performance units for the years 1998 through 2001 and 2000 through 2003, respectively. The Company accrues for anticipated awards to be paid out in cash over the life of the award. Information regarding stock options under the Company Incentive Plan is as follows for the years ended December 31, 2000, 1999 and 1998:

(in thousands except per share data)	Common Shares	2000 Weighted Average Price	Common Shares	1999 Weighted Average Price	Common Shares	1998 Weighted Average Price
Options outstanding at January 1	1,809	$ 19.33	1,128	$ 24.86	926	$ 25.23
Granted	62	9.44	744	10.69	360	22.88
Exercised	(9)	10.69	-	-	(48)	14.50
Canceled	(273)	18.61	(63)	16.28	(110)	25.88
Options outstanding at December 31	1,589	19.11	1,809	19.33	1,128	24.86
Options exercisable at December 31	965	$ 23.57	837	$ 24.77	600	$ 25.04
Options available for grant at December 31	4,305		4,094		4,775	

The Company applies APB 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for the Company Incentive Plan. Accordingly, no compensation expense has been recognized for the fixed stock option portion of the Company Incentive Plan. Had compensation expense for the fixed stock option portion of the Company Incentive Plan been determined based on the fair value at the grant dates for awards under this plan consistent with the method of FAS 123, Accounting for Stock-Based Compensation, the Company's net income (loss) and earnings (loss) per common share would have been changed to the pro forma amounts as indicated in the table below. The after-tax fair value of options granted in 2000, 1999 and 1998 was determined to be $0.2 million, $2.9 million and $2.3 million, respectively, using the Black-Scholes option pricing model and the weighted average assumptions noted below. For purposes of these pro forma disclosures, the estimated fair value of the options is recognized as compensation expense over the options' vesting period. The stock options granted in 2000, 1999 and 1998 vest ratably over three, four and three years, respectively.

Year ended December 31 (in millions except per share data)	2000	1999	1998
As reported			
Net income (loss)	$ (12.7)	$(346.3)	$ 30.0
Basic and diluted earnings (loss) per share	(.33)	(9.02)	.76
Pro forma (unaudited)			
Net income (loss)	$ (14.1)	$(347.7)	$ 29.3
Basic and diluted earnings (loss) per share	(.37)	(9.06)	.74
Weighted average fair value per share of options granted	$ 4.06	$ 4.13	$ 7.22
Assumptions (weighted average)			
Risk-free interest rate	5.1%	6.6%	6.0%
Expected dividend yield	2.0%	2.0%	2.0%
Expected volatility	51.2%	41.4%	31.8%
Expected life (in years)	5.0	5.0	5.0

The table below shows pertinent information on options outstanding at December 31, 2000:

(Options in thousands)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 8 - $11	662	8.29	$10.58	122	$10.67
$22 - $23	479	5.68	22.56	395	22.49
$25 - $35	448	4.57	28.05	448	28.05
$ 8 - $35	1,589	6.46	$19.11	965	$23.57

16. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

The Company places its cash equivalents in investment-grade short-term investments and limits the amount of credit exposure to any one commercial issuer.

The Company markets its coal principally to electric utilities in the United States. Sales to foreign countries are immaterial. As of December 31, 2000 and 1999, accounts receivable from electric utilities located in the United States totaled $112.2 million and $120.2 million, respectively. Generally, credit is extended based on an evaluation of the customer's financial condition, and collateral is not generally required. Credit losses are provided for in the financial statements and historically have been minimal.

The Company is committed under long-term contracts to supply coal that meets certain quality requirements at specified prices. These prices are generally adjusted based on indices. Quantities sold under some of these contracts may vary from year to year within certain limits at the option of the customer. The Company and its operating subsidiaries sold approximately 105.5 million tons of coal in 2000. Approximately 79% of this tonnage was sold under long-term contracts (contracts having a term of greater than one year) accounting for 78% of the Company's total revenue. Prices for coal sold under long-term contracts ranged from $3.45 to $52.95 per ton. Long-term contracts ranged in remaining life from one to 18 years. Some of these contracts include pricing which is above and, in some cases, materially above current market prices. The Company currently supplies 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, 2000, approximately $18.4 million of the Company's operating income related to these contracts. The Company expects 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. Sales (including spot sales) to major customers were as follows:

Year ended December 31 (in thousands)	2000	1999	1998
AEP	$188,129	$157,278	$195,682
Southern Company	161,553	163,826	170,452

17. EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per common share:

Year ended December 31 (in thousands except per share data)	2000	1999	1998
Numerator:			
Income (loss) before extraordinary loss and cumulative effect of accounting change	$ (12,736)	$ (350,093)	$ 31,501
Extraordinary loss from the extinguishment of debt, net of taxes	-	-	(1,488)
Cumulative effect of accounting change, net of taxes	-	3,813	-
Net income (loss)	$ (12,736)	$ (346,280)	$ 30,013
Denominator:			
Weighted average shares-denominator for basic	38,164	38,392	39,626
Dilutive effect of employee stock options	-	-	25
Adjusted weighted average shares-denominator for diluted	38,164	38,392	39,651
Basic and diluted earnings (loss) per common share before extraordinary loss and cumulative effect of accounting change	$ (.33)	$ (9.12)	$ .79
Basic and diluted earnings (loss) per common share	$ (.33)	$ (9.02)	$ .76

At December 31, 2000, 1999 and 1998, 1.6 million, 1.8 million and 1.1 million shares, respectively, were not included in the diluted per share calculation since the exercise price is greater than the average market price.

18. SALE AND LEASEBACK

On June 30, 2000, the Company sold several shovels and continuous miners for $14.9 million and leased back the equipment under operating and capital leases. The proceeds of the sales were used to pay down debt and for general corporate purposes. The shovels have been leased over a period of five years, while the continuous miners have been leased with terms ranging from two to five years. The leases contain renewal options at lease termination and purchase options at amounts approximating fair value at lease termination. The gain on the sale and leaseback of $1.5 million was deferred and is being amortized over the base term of the lease as a reduction of lease expense.

On January 29, 1998, the Company sold mining equipment for approximately $74.2 million and leased back the equipment under an operating lease with a term of three years. This included the sale and leaseback of equipment purchased under an existing operating lease that expired on the same day. The proceeds of the sale were used to purchase the equipment under the expired lease for $28.3 million and to pay down debt. At the end of the lease term, the Company had the option to renew the lease for two additional one-year periods or purchase the equipment. Alternatively, the equipment could have been sold to a third party. The gain on the sale and leaseback of $10.7 million was deferred and is being amortized over the base term of the lease as a reduction of rental expense. Effective April 1, 1999 and February 4, 2000, the Company purchased for $14.4 million and $10.3 million, respectively, several pieces of equipment under lease that were included in this transaction. A pro-rata portion of the deferred gain, or $3.4 million, was offset against the cost of the assets. On May 17, 2000, the Company purchased the remaining assets under the lease for $34.7 million, which resulted in the termination of the lease. The remaining deferred gain of $1.2 million was offset against the cost of the assets.

19. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company receives certain services and purchases fuel, oil and other products on a competitive basis from subsidiaries of Ashland Inc., which totaled $3.6 million in 2000, $4.8 million in 1999 and $7.2 million in 1998. Management believes that charges between the Company and Ashland Inc. for services and purchases were transacted on terms equivalent to those prevailing among unaffiliated parties. At December 31, 2000, Ashland Inc. owned approximately 12% of the Company's outstanding shares of common stock. On August 3, 2000, the Company received a written notice from Ashland Inc. pursuant to which Ashland Inc. exercised its demand registration rights under a Registration Rights Agreement, dated April 4, 1997, by and among the Company, Ashland Inc., Carboex International, Limited (now Carboex, S.A.) and the certain Hunt entities and requested that its remaining 4,756,968 shares be sold by means of an underwritten offering. Such shares were sold subsequent to year-end.

As described in Note 1, the Company has a 65% ownership interest in Canyon Fuel which is accounted for on the equity method. The Company receives administration and production fees from Canyon Fuel for managing the Canyon Fuel operations. The fee arrangement is calculated annually and is approved by the Canyon Fuel Management Board. The production fee is calculated on a per-ton basis, while the administration fee represents the costs incurred by Arch Coal employees related to Canyon Fuel administrative matters. The fees recognized as other income by the Company and as expense by Canyon Fuel were $7.4 million, $7.0 million and $4.1 million for the years ended December 31, 2000, 1999 and 1998, respectively.

20. COMMITMENTS AND CONTINGENCIES

The Company leases equipment, land and various other properties under noncancelable long-term leases, expiring at various dates. Rental expense related to these operating leases amounted to $22.7 million in 2000, $42.2 million in 1999 and $28.0 million in 1998. The decrease in rental expense is the result of the purchase of several assets during 2000 out of a sale and leaseback arrangement entered into in 1998 (see additional discussion in Note 18, "Sale and Leaseback"). In addition, the Company recorded an obligation for non-cancelable lease payments at its Dal-Tex operation during 1999 (see additional discussion in Note 2, "Changes in Estimates and Other Non-recurring Revenues and Expenses"). The Company has also entered into various non-cancelable royalty lease agreements and federal lease bonus payments under which future minimum payments are due. On October 1, 1998, the Company was the successful bidder in a federal auction of certain mining rights in the 3,546-acre Thundercloud tract in the Powder River Basin of Wyoming. The Company's lease bonus bid amounted to $158 million for the tract, of which $31.6 million was paid on October 1, 1998 and $31.6 million was paid on January 3, 2000. The remaining lease bonus payments are reflected below under the caption "Royalties." The tract contains approximately 412 million tons of demonstrated coal reserves and is contiguous with the Company's Black Thunder mine. Geological surveys performed by outside consultants indicate that there are sufficient reserves relative to these properties to permit recovery of the Company's investment.

Minimum payments due in future years under these agreements in effect at December 31, 2000 are as follows:

(in thousands)	Leases	Operating Leases and Royalties	Capital Leases
2001	$ 16,990	$ 60,050	$ 4,226
2002	12,431	62,773	3,756
2003	10,556	62,603	3,756
2004	6,619	30,205	3,756
2005	6,506	26,807	1,466
Thereafter	15,616	177,089	-
	$ 68,718	$419,527	$ 16,960
Less amount representing interest			$ 3,087
Present value of net minimum lease payments under capital leases			13,873
Current portion			2,525
Long-term capitalized lease obligations			$ 11,348

Property, plant and equipment at year-end include the following amounts for capitalized leases:

December 31 (in thousands)	2000
Plant and equipment	$ 15,228
Accumulated amortization	1,475
	$ 13,753

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. As of December 31, 2000, the Company had accrued $2.5 million related to a settlement with the U.S. Department of the Interior associated with the 1996 impoundment failure at Lone Mountain. The Company expects to make the settlement payment during the first quarter of 2001. 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.

The Company holds a 17.5% general partnership interest in Dominion Terminal Associates ("DTA"), which operates a ground storage-to-vessel coal transloading facility in Newport News, Virginia. DTA leases the facility from Peninsula Ports Authority of Virginia ("PPAV") for amounts sufficient to meet debt-service requirements. Financing is provided through $132.8 million of tax-exempt bonds issued by PPAV (of which the Company is responsible for 17.5%, or $23.2 million) which mature July 1, 2016. Under the terms of a throughput and handling agreement with DTA, each partner is charged its share of cash operating and debt-service costs in exchange for the right to use its share of the facility's loading capacity and is required to make periodic cash advances to DTA to fund such costs. On a cumulative basis, costs exceeded cash advances by $10.9 million at December 31, 2000 (included in other noncurrent liabilities). Future payments for fixed operating costs and debt service are estimated to approximate $3.3 million annually through 2015 and $26.0 million in 2016.

In connection with the Arch Western transaction, the Company entered into an agreement pursuant to which the Company agreed to indemnify another member of Arch Western against certain tax liabilities in the event that such 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 Arch Western transaction. Depending on the time at which any such indemnification obligation was to arise, it could have a material adverse effect on the business, results of operations and financial condition of the Company.

21. CASH FLOW

The changes in operating assets and liabilities as shown in the consolidated statements of cash flows are comprised of the following:

Year ended December 31 (in thousands)	2000	1999	1998
Decrease (increase) in operating assets:			
Receivables	$ 8,194	$ 38,356	$ (35,464)
Inventories	14,452	5,188	6,723
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	(4,515)	(15,593)	30,229
Income taxes	(2,683)	(76,952)	(35,057)
Accrued postretirement benefits other than pension	(7,330)	440	6,813
Accrued reclamation and mine closure	(10,941)	(20,767)	1,936
Accrued workers' compensation	(26,597)	(143)	149
Changes in operating assets and liabilities	$ (29,420)	$ (69,471)	$ (24,671)

22. ACCOUNTING DEVELOPMENT

In June 1998, the Financial Accounting Standards Board issued FAS 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 2000. FAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. FAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. FAS 133 will not have a significant impact on the financial position or results of operations of the Company.

23. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial data for 2000 and 1999 is summarized below:

(in thousands)	March 31/(1)/	June 30/(1)/	Sept. 30/(1)/	Dec. 31/(1)/
2000:				
Coal sales, equity income and other revenues	$ 357,801	$ 340,153	$ 359,289	$ 347,378
Income from operations	2,898	19,966/(2)(3)/	15,851	35,269/(4)(5)/
Net income (loss)	(15,027)	(2,125)	(5,198)	9,614
Basic and diluted earnings (loss) per common share/(9)/	(0.39)	(0.06)	(0.14)	0.25
1999:				
Coal sales, equity income and other revenues	$ 421,126	$ 391,292	$ 382,236	$ 372,728
Income (loss) from operations	13,983/(6)/	20,739	12,602	(374,350)/(8)/
Income (loss) before cumulative effect of accounting change	(2,380)	2,459	(1,820)	(348,352)
Net income (loss)	1,433/(7)/	2,459	(1,820)	(348,352)
Basic and diluted earnings (loss) per common share before cumulative effect of accounting change	(0.06)	0.06	(0.05)	(9.12)
Basic and diluted earnings (loss) per common share/(9)/	0.04	0.06	(0.05)	(9.12)

(1) At the West Elk underground mine in Gunnison County, Colorado, following the detection of combustion-related gases in a portion of the mine, the Company idled its operation on January 28, 2000. While it was idled, the Company incurred between $4 million and $6 million per month in after-tax losses at that mine. On July 12, 2000, after controlling the combustion-related gases, the Company resumed production at the West Elk mine and started to ramp up to normal levels of production. During the ramp-up process, the mine experienced geological conditions that hindered production during the fourth quarter. The Company recognized partial pre-tax insurance settlements of $12.0 million during each of the second and third quarters of 2000 and $7.0 million during the fourth quarter of 2000 which covered a portion of the losses incurred at West Elk during 2000. The Company expects to receive additional insurance payments under its property and business interruption policy. However, any additional recovery will depend on resolution of the claim with the insurance carrier, the timing of which is uncertain.

(2) During the second quarter of 2000, as a result of permit revisions at Arch of Illinois, the Company reduced its reclamation liability at Arch of Illinois by $7.8 million (pre-tax).

(3) During the second quarter of 2000, the IRS issued a notice outlining the procedures for obtaining tax refunds on certain excise taxes paid by the industry on export sales tonnage. The notice was the result of a 1998 federal 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.

(4) During the fourth quarter of 2000, as a result of adjustments to employee postretirement medical benefits, the Company recognized $9.8 million of pre-tax curtailment gains resulting from previously unrecognized postretirement benefit changes which occurred in prior years.

(5) During the fourth quarter of 2000, the Company settled certain workers' compensation liabilities with the State of West Virginia partially offset by adjusting other workers' compensation liabilities resulting in a net pre-tax gain of $13.0 million.

(6) During the first quarter of 1999, the Company recorded a charge of $6.5 million related to severance costs, obligations for non-cancelable lease payments and a change in the reclamation liability due to the shut-down of the Company's Dal-Tex operation.

(7) During the first quarter of 1999, the Company changed its depreciation method on preparation plants and loadouts and recorded a cumulative effect adjustment which increased income by $3.8 million (net of tax) from applying the new method for years prior to 1999.

(8) During the fourth quarter of 1999, the Company recorded a one-time pre-tax charge of $380.9 million to write-down the assets at its Dal-Tex, Hobet 21 and Coal-Mac operations and write-down certain other coal reserves in central Appalachia. Included in this charge was a $16.3 million pre-tax charge related to the restructuring of the Company's administrative work force and the closure of mines in Illinois, Kentucky and West Virginia.

(9) The sum of the quarterly earnings (loss) per common share amounts may not equal earnings (loss) per common share for the full year because per share amounts are computed independently for each quarter and for the year based on the weighted average number of common shares outstanding during each period.

SELECTED FINANCIAL INFORMATION

Year ended December 31, (In thousands, except per share data)	2000/(1,2,3,4)/	1999/(5,6)/	1998/(7,8)/	1997/(9,10,11)/	1996
STATEMENT OF OPERATIONS DATA:					
Coal sales, equity income and other revenues	$ 1,404,621	$ 1,567,382	$ 1,505,635	$ 1,066,875	$ 780,621
Costs and expenses:					
Cost of coal sales	1,237,378	1,426,105	1,313,400	916,802	669,295
Selling, general and administrative expenses	38,887	46,357	44,767	28,885	20,435
Amortization of coal supply agreements	39,803	36,532	34,551	18,063	12,604
Write-down of impaired assets	-	364,579	-	-	-
Merger-related expenses	-	-	-	39,132	-
Other expenses	14,569	20,835	25,070	22,111	22,175
Income (loss) from operations	73,984	(327,026)	87,847	41,882	56,112
Interest expense, net	90,720	88,767	61,446	17,101	17,592
Provision (benefit) for income taxes	(4,000)	(65,700)	(5,100)	(5,500)	5,500
Income (loss) before extraordinary loss and cumulative effect of accounting change	(12,736)	(350,093)	31,501	30,281	33,020
Extraordinary loss	-	-	(1,488)	-	-
Cumulative effect of accounting change	-	3,813	-	-	-
Net income (loss)	$ (12,736)	$ (346,280)	$ 30,013	$ 30,281	$ 33,020
BALANCE SHEET DATA:					
Total assets	$ 2,232,614	$ 2,332,374	$ 2,918,220	$ 1,656,324	$ 885,521
Working capital	(37,556)	(54,968)	20,176	40,904	33,166
Long-term debt, less current maturities	1,090,666	1,094,993	1,309,087	248,425	212,695
Other long-term obligations	606,628	655,166	657,759	594,127	421,754
Stockholders' equity	$ 219,874	$ 241,295	$ 618,216	$ 611,498	$ 130,626
COMMON STOCK DATA:					
Basic and diluted earnings (loss) per common share before extraordinary loss and cumulative effect of accounting change	$ (0.33)	$ (9.12)	$ 0.79	$ 1.00	$ 1.58
Basic and diluted earnings (loss) per common share	$ (0.33)	$ (9.02)	$ 0.76	$ 1.00	$ 1.58
Dividends per share	$ .23	$ .46	$ .46	$ .445	$ .38
Shares outstanding at year-end	38,173	38,164	39,372	39,658	20,948
CASH FLOW DATA:					
Cash provided by operating activities	$ 135,772	$ 279,963	$ 188,023	$ 190,263	$ 138,471
Depreciation, depletion and amortization	201,512	235,658	204,307	143,632	114,703
Purchases of property, plant and equipment	115,080	98,715	141,737	77,309	62,490
Canyon Fuel Company depreciation, depletion and amortization	39,679	36,423	21,346	-	-
Dividend payments	8,778	17,609	18,266	13,630	8,000
Adjusted EBITDA/(12)/	$ 315,175	$ 325,949	$ 313,500	$ 224,646	$ 170,815
OPERATING DATA:					
Tons sold	105,519	111,177	81,098	40,525	29,443
Tons produced	100,060	109,524	75,817	36,698	26,887
Tons purchased from third parties	5,084	3,781	4,997	2,906	2,062

(1) At the West Elk underground mine in Gunnison County, Colorado, following the detection of combustion-related gases in a portion of the mine, the Company idled its operation on January 28, 2000. While it was idled, the Company incurred between $4 million and $6 million per month in after-tax losses at that mine. On July 12, 2000, after controlling the combustion-related gases, the Company resumed production at the West Elk mine and started to ramp up to normal levels of production. During the ramp-up process, the mine experienced geological conditions that hindered production during the fourth quarter. The Company recognized partial pre-tax insurance settlements of $31 million during 2000 which covered a portion of the losses incurred at West Elk. The Company expects to receive additional insurance payments under its property and business interruption policy. However, any additional recovery will depend on resolution of the claim with the insurance carrier, the timing of which is uncertain.

(2) The IRS issued a notice outlining the procedures for obtaining tax refunds on certain excise taxes paid by the industry on export sales tonnage. The notice was the result of a 1998 federal 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.

(3) As a result of adjustments to employee postretirement medical benefits, the Company was able to recognize $9.8 million of pre-tax curtailment gains resulting from previously unrecognized postretirement benefit changes which occurred in prior years.

(4) The Company settled certain workers' compensation liabilities with the State of West Virginia partially offset by adjusting other workers' compensation liabilities resulting in a net pre-tax gain of $8.3 million.

(5) The Company changed its 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 net-of-tax.

(6) The loss from operations for 1999 reflects one-time pre-tax charges of $387.7 million related principally to the write-down of assets at its Dal-Tex, Hobet 21 and Coal-Mac operations and the write-down of certain other coal reserves in central Appalachia. Included in this charge was a $23.1 million pre-tax charge related to the restructuring of the Company's administrative work force and the closure of mines in Illinois, Kentucky and West Virginia.

(7) Information for 1998 reflects the acquisition of Atlantic Richfield Company's domestic coal operations on June 1, 1998. As a result of the refinancing of Company debt resulting from the acquisition, the Company 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.

(8) Income from operations for 1998 reflects pre-tax gains of $41.8 million from the disposition of assets including $18.5 million and $7.5 million on the sale of certain assets and property in eastern Kentucky and the sale of the Company's idle Big Sandy Terminal, respectively.

(9) Information for 1997 reflects the merger with Ashland Coal on July 1, 1997.

(10) Income from operations for 1997 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.

(11) On April 4, 1997, the Company changed its capital stock whereby the number of authorized shares was increased to 100,000,000 common shares, the par value was changed to $.01 per share, and a common stock split of 338.0857-for-one was effected. All share and per share information reflects the stock split.

(12) Adjusted EBITDA is defined as income (loss) from operations before the effect of changes in accounting principles and extraordinary items (Note 5 above); merger-related costs, unusual items, asset impairment and restructuring charges (Note 6, 7, and 10 above); net interest expense; income taxes; and depreciation, depletion and amortization of Arch Coal, its subsidiaries and its ownership percentage in its equity investments. Adjusted EBITDA is presented because it is a widely accepted financial indicator of a company's ability to incur and service debt. Adjusted EBITDA should not be considered in isolation nor 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 generally accepted accounting principles. This measure of adjusted EBITDA may not be comparable to similar measures reported by other companies, or adjusted EBITDA may be computed differently by the Company in different contexts (i.e., public reporting versus computations under financing arrangements).

BOARD OF DIRECTORS

JAMES R. BOYD b c d
Chairman of the Board, Arch Coal, Inc.;
Senior Vice President & Group Operating Officer, Ashland Inc.

ROBERT L. HINTZ a* b
Chairman of the Board, R.L. Hintz & Associates;
Retired Executive Vice President, CSX Corporation

PHILIP W. BLOCK d
Administrative Vice President of Human Resources,
Ashland Inc.

DOUGLAS H. HUNT a d*
Director of Acquisitions, Petro-Hunt, LLC

FRANK M. BURKE a
Retired Chairman, CEO, and Managing Partner of
Burke Mayborn Company, Ltd.

STEVEN F. LEER b c
President & Chief Executive Officer, Arch Coal, Inc.

IGNACIO DOMINGUEZ URQUIJO a c d
Chief Executive Officer and Administrator, Carboex, S.A.;
Senior Vice President, Endesa Group

JAMES L. PARKER b* c
Retired President, Hunt Petroleum Corporation and President,
Hunt Coal Corporation

A. MICHAEL PERRY a b c
Chairman of the Board, Bank One, West Virginia, N.A.

THOMAS L. FEAZELL d
Retired Senior Vice President, Ashland Inc.

THEODORE D. SANDS c* d
President, HAAS Capital, LLC; Retired Managing
Director, Investment Banking, for the Global Metals/
Mining Group, Merrill Lynch & Co.

a Audit Committee

b Committee on Directors

c Finance Committee

d Personnel and Compensation Committee

*Committee Chairman

SENIOR OFFICERS

STEVEN F. LEER
President & Chief Executive Officer

KENNETH G. WOODRING
Executive Vice President, Mining Operations

JOHN W. EAVES
Senior Vice President, Marketing

ROBERT J. MESSEY
Senior Vice President & Chief Financial Officer

BRADLEY M. ALLBRITTEN
Vice President, Human Resources

C. HENRY BESTEN
Vice President, Strategic Marketing

ROBERT G. JONES
Vice President - Law, General Counsel & Secretary

TERRY L. O'CONNOR
Vice President, External Affairs

DAVID B. PEUGH
Vice President, Business Development

ROBERT W. SHANKS
Vice President, Operations, and
President, Arch Western Resources, LLC

OTHER OFFICERS

LARRY BROWN
Vice President & Chief Information Officer

JAMES E. FLORCZAK
Treasurer

JOHN W. LORSON
Controller

WILLIAM H. ROSE
Vice President, Tax

C. DAVID STEELE
Director - Internal Audit

STOCKHOLDER INFORMATION

COMMON STOCK

Arch Coal's common stock is listed and traded on the New York Stock Exchange and also has unlisted trading privileges on the Chicago Stock Exchange. The ticker symbol is ACI.

Quarter ended	March 31 2000	June 30 2000	Sept. 30 2000	Dec. 31 2000
Dividends per common share	$ .0575	$ .0575	$ .0575	$ .0575
High	$ 11.38	$ 9.00	$ 11.25	$ 14.94
Low	$ 6.50	$ 4.75	$ 6.94	$ 9.38
Close	$ 7.00	$ 7.70	$ 10.00	$ 14.13

Quarter ended	March 31 1999	June 30 1999	Sept. 30 1999	Dec. 31 1999
Dividends per common share	$ .115	$ .115	$ .115	$ .115
High	$ 16.88	$ 14.81	15.56	$ 13.00
Low	$ 9.75	$ 10.94	$ 11.38	$ 8.56
Close	$ 13.25	$ 13.88	$ 12.31	$ 11.31

On March 1, 2001, Arch Coal's common stock closed at $24.30 on the New York Stock Exchange. At that date, there were 12,006 holders of record of Arch Coal's common stock.

DIVIDENDS

In 2000, Arch Coal paid dividends totaling $8.8 million, or $.23 per share, on its outstanding shares of common stock. In 1999, Arch Coal paid dividends totaling $17.6 million, or $.46 per share, on its outstanding shares of common stock. There is no assurance as to the amount or payment of dividends in the future because they are dependent on Arch Coal's future earnings, capital requirements and financial condition.

STOCK INFORMATION

Questions by stockholders regarding stockholder records, stock certificates, dividends, the Dividend Reinvestment Plan or other stock inquiries should be directed to:

EquiServe, N.A.
P.O. Box 2500
Jersey City, NJ 07303
Telephone: (800) 317-4445
Website: www.equiserve.com

FINANCIAL INFORMATION
Inquiries from stockholders and security analysts should be directed to:

Investor Relations
Arch Coal, Inc.
CityPlace One, Suite 300
St. Louis, MO 63141
Telephone: (314) 994-2700
Fax: (314) 994-2878

WEBSITE
Arch Coal's quarterly financial results as well as other corporate information are available at www.archcoal.com.

CORPORATE COMMUNICATIONS
Copies of the Securities and Exchange Commission Form 10-K are available without charge. Requests for this document and other inquiries should be directed to:

External Affairs
Arch Coal, Inc.
CityPlace One, Suite 300
St. Louis, MO 63141
Telephone: (314) 994-2700
Fax: (314) 994-2878

GENERAL OFFICES
Arch Coal, Inc.
CityPlace One, Suite 300
St. Louis, MO 63141
Telephone: (314) 994-2700

INDEPENDENT AUDITORS
Ernst & Young LLP
701 Market Street
St. Louis, MO 63101

EXHIBIT 21

SUBSIDIARIES OF ARCH COAL, INC.

The following is a complete list of the direct and indirect subsidiaries of Arch Coal, Inc., a Delaware corporation:

NAME	JURISDICTION OF INCORPORATION/FORMATION
Allegheny Land Company	Delaware
Apogee Coal Company	Delaware
Arch Coal International, Ltd.	Barbados
Arch Coal Sales Company, Inc.	Delaware
Arch Coal Terminal, Inc.	Delaware
Arch Energy Resources, Inc.	Delaware
(1) Arch of Wyoming, LLC	Delaware
Arch Reclamation Services, Inc.	Delaware
(1) Arch Uinta, LLC	Delaware
Arch Western Acquisition Corporation	Delaware
(2) Arch Western Resources, LLC	Delaware
Ark Land Company	Delaware
Ashland Terminal, Inc.	Delaware
(1) AU Sub, LLC	Delaware
(3) Canyon Fuel Company, LLC	Delaware
Catenary Coal Company	Delaware
Catenary Coal Holdings, Inc.	Delaware
Coal-Mac, Inc.	Kentucky
Cumberland River Coal Company	Delaware
Energy Development Co.	Iowa
Hobet Mining, Inc.	West Virginia
Julian Tipple, Inc.	Delaware
Lone Mountain Processing, Inc.	Delaware
Mingo Logan Coal Company	Delaware
(1) Mountain Coal Company, L.L.C.	Delaware
Mountain Gem Land, Inc.	West Virginia
Mountain Mining, Inc.	Delaware
Mountaineer Land Company	Delaware
P. C. Holding, Inc.	Delaware
Paint Creek Terminals, Inc.	Delaware
(1) State Leases LLC	Delaware
(1) Thunder Basin Coal Company, L.L.C.	Delaware

(1) Owned by Arch Western Resources, LLC.
(2) Arch Western Acquisition Corporation owns a 99% membership interest in Arch Western Resources, LLC.
(3) Arch Western Resources, LLC owns a 65% membership interest in Canyon Fuel Company, LLC.

Exhibit 23.1

Independent Auditors' Consent

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Arch Coal, Inc. of our report dated January 24, 2001, included in the 2000 Annual Report to Stockholders of Arch Coal, Inc.

Our audits also included the financial statement schedule of Arch Coal, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in (1) the Registration Statement (Form S-8 No. 333-30565) pertaining to the Arch Coal, Inc. 1997 Stock Incentive Plan and in the related Prospectus, (2) the Registration Statement (Form S-8 No. 333-32777) pertaining to the Arch Coal, Inc. Employee Thrift Plan and in the related Prospectus, and (3) the Registration Statement (Form S-8 No. 333-68131) pertaining to the Arch Coal, Inc. Deferred Compensation Plan and in the related Prospectus, of our report dated January 24, 2001, with respect to the financial statements of Canyon Fuel Company, LLC included in, of our report dated January 24, 2001, with respect to the consolidated financial statements of Arch Coal, Inc. and subsidiaries incorporated by reference in, and of our opinion with respect to the financial statement schedule of Arch Coal, Inc. listed in Item 14(a) included in the Arch Coal, Inc. Annual Report (Form 10-K) for the year ended December 31, 2000.

/s/ Ernst & Young LLP
St. Louis, Missouri
March 9, 2001

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS: That each of the undersigned directors and the undersigned Director/Officer of ARCH COAL, INC., a Delaware corporation ("Arch Coal"), hereby constitutes and appoints Steven F. Leer, and Robert G. Jones, and each of them, his true and lawful attorneys-in-fact and agents, with full power to act without the others, to sign Arch Coal's Annual Report on Form 10-K for the year ended December 31, 2000, to be filed with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended; to file such Annual Report and the exhibits thereto and any and all other documents in connection therewith, including without limitation amendments thereto, with the Securities and Exchange Commission; and to do and perform any and all other acts and things requisite and necessary to be done in connection with the foregoing as fully as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Dated: February 21, 2001

 - ----------------------------- Steven F. Leer	President and Chief Executive Officer and Director ---------------------------------------
/S/ JAMES R. BOYD - ----------------------------- James R. Boyd	Chairman of the Board and Director ---------------------------------
 - --------------- Philip W. Block	Director --------
/S/ FRANK M. BURKE - ----------------------------- Frank M. Burke	Director --------
/S/ IGNACIO DOMINGUEZ - --------------------- Ignacio Dominguez Urquijo	Director --------
/S/ THOMAS L. FEAZELL - ----------------------------- Thomas L. Feazell	Director --------
/S/ ROBERT L. HINTZ - ----------------------------- Robert L. Hintz	Director --------
/S/ DOUGLAS H. HUNT - ----------------------------- Douglas H. Hunt	Director --------
/S/ JAMES L. PARKER - ----------------------------- James L. Parker	Director --------
/S/ A. MICHAEL PERRY - ----------------------------- A. Michael Perry	Director --------
/S/ THEODORE D. SANDS - ----------------------------- Theodore D. Sands	Director --------

FINANCIAL STATEMENTS

Canyon Fuel Company, LLC
Years ended December 31, 2000, 1999, and 1998
with Report of Independent Auditors

Canyon Fuel Company, LLC

Financial Statements

Years ended December 31, 2000, 1999, and 1998

Contents

Report of Independent Auditors

To the Members of Canyon Fuel Company, LLC:

We have audited the accompanying balance sheets of Canyon Fuel Company, LLC (a Delaware limited liability company) (the Company) as of December 31, 2000 and 1999, and the related statements of operations, members' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canyon Fuel Company, LLC at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP
St. Louis, Missouri
January 24, 2001

Canyon Fuel Company, LLC

Statements of Operations
(In Thousands)

	December 31 2000	1999	1998
Revenues:			
Coal sales	$ 258,513	$ 240,264	$ 275,303
Other revenues	588	798	905
	259,101	241,062	276,208
Costs and expenses:			
Cost of coal sales	215,785	207,052	255,149
Amortization of coal supply agreements	19,857	17,897	19,044
Fees to members	8,029	7,751	5,945
	243,671	232,700	280,138
Income (loss) from operations	15,430	8,362	(3,930)
Interest, net:			
Interest expense	(140)	(230)	(205)
Interest income	585	634	1,110
	445	404	905
Net income (loss)	$ 15,875	$ 8,766	$ (3,025)

The accompanying notes are an integral part of the financial statements.

Canyon Fuel Company, LLC

Balance Sheets
(In Thousands)

	December 31 2000	December 31 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 14	$ 436
Trade accounts receivable	36,924	25,829
Other receivables	6,809	7,640
Inventories	20,391	25,430
Other	2,937	1,877
Total current assets	67,075	61,212
Property, plant and equipment:		
Coal lands and mineral rights	270,436	266,956
Plant and equipment	230,881	229,280
Deferred mine development	31,959	10,037
	533,276	506,273
Less accumulated depreciation, depletion and amortization	(171,849)	(130,686)
Property, plant and equipment, net	361,427	375,587
Other assets:		
Prepaid royalties	26,218	22,399
Coal supply agreements	23,467	43,324
Other	34	20
Total other assets	49,719	65,743
Total assets	$ 478,221	$ 502,542
Liabilities and members' equity		
Current liabilities:		
Accounts payable	$ 25,607	$ 25,334
Accrued expenses	7,528	11,731
Total current liabilities	33,135	37,065
Accrued postretirement benefits other than pension	8,219	8,219
Accrued reclamation and mine closure	3,649	3,280
Accrued workers' compensation	6,830	6,204
Other noncurrent liabilities	2,591	3,086
Total liabilities	54,424	57,854
Members' equity	423,797	444,688
Total liabilities and members' equity	$ 478,221	$ 502,542

The accompanying notes are an integral part of the financial statements.

Canyon Fuel Company, LLC

Statements of Members' Equity
(In Thousands)

Years ended December 31, 2000, 1999, and 1998

	ARCO Uinta Coal Company Through June 1, 1998, Arch Western Resources, LLC Thereafter	ITOCHU Coal International Inc.	Total
Members' equity, December 31, 1997	$373,060	$200,878	$ 573,938
Contributions	11,785	6,346	18,131
Distributions	(18,850)	(10,150)	(29,000)
Net loss	(1,966)	(1,059)	(3,025)
Members' equity, December 31, 1998	364,029	196,015	560,044
Distributions	(80,679)	(43,443)	(124,122)
Net income	5,698	3,068	8,766
Members' equity, December 31, 1999	289,048	155,640	444,688
Contributions	17,550	9,450	27,000
Distributions	(41,448)	(22,318)	(63,766)
Net income	10,319	5,556	15,875
Members' equity, December 31, 2000	$275,469	$148,328	$ 423,797

The accompanying notes are an integral part of the financial statements.

Canyon Fuel Company, LLC

Statements of Cash Flows
(In Thousands)

	December 31 2000	1999	1998
Operating activities			
Net income (loss)	$ 15,875	$ 8,766	$ (3,025)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation, depletion and amortization	62,005	62,074	68,669
Prepaid royalties	3,424	3,344	2,704
Net loss on disposition of assets	25	111	260
Changes in operating assets and liabilities	(8,160)	14,489	1,691
Other	(514)	878	285
Cash provided by operating activities	72,655	89,662	70,584
Investing activities			
Proceeds from coal supply agreements	-	11,155	-
Additions to property, plant and equipment	(28,161)	(34,071)	(43,499)
Proceeds from dispositions of property, plant and equipment	148	-	-
Additions to prepaid royalties	(7,243)	(912)	-
Cash used in investing activities	(35,256)	(23,828)	(43,499)
Financing activities			
Members' contributions	27,000	-	18,131
Members' cash distributions	(63,766)	(84,151)	(29,000)
Payment on other noncurrent liabilities	(1,055)	(1,493)	(1,413)
Cash used in financing activities	(37,821)	(85,644)	(12,282)
(Decrease) increase in cash and cash equivalents	(422)	(19,810)	14,803
Cash and cash equivalents, beginning of year	436	20,246	5,443
Cash and cash equivalents, end of year	$ 14	$ 436	$ 20,246
Supplemental cash flow information			
Cash paid during the year for interest	$ 281	$ 159	$ 241

The accompanying notes are an integral part of the financial statements.

Canyon Fuel Company, LLC

Notes to Financial Statements

December 31, 2000

1. Formation of the Company

Effective December 20, 1996, Canyon Fuel Company, LLC (the Company) was formed as a joint venture between ARCO Uinta Coal Company (ARCO) (65 percent ownership) and ITOCHU Coal International Inc. (35 percent ownership) for the purpose of acquiring certain Utah coal operations and an approximate 9 percent interest in Los Angeles Export Terminal, Inc. (LAXT) from Coastal Coal, Inc. and The Coastal Corporation (collectively, Coastal). Effective June 1, 1998, ARCO's ownership of the Company was acquired by Arch Western Resources, LLC (Arch Western). The owners of the Company are referred to herein as the "Members."

The Company operates one reportable segment: the production of steam coal from deep mines in Utah for sale primarily to utility companies in the United States. Net profits and losses are allocated to the Members based on their respective ownership percentage. Distributions of the Company's earnings are also allocated to the Members based on their respective ownership percentage.

2. Accounting Policies

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates fair value. Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased.

2. Accounting Policies (continued)

Inventories

Inventories consist of the following:

	December 31 2000	December 31 1999
	(In Thousands)	
Coal	$10,963	$14,850
Supplies	9,428	10,580
	$20,391	$25,430

Coal inventory is valued using the first-in, first-out (FIFO) cost method and is stated at the lower of cost or market. Coal inventory costs include labor, equipment costs, and operating overhead. Supplies are valued using the average cost method and are stated at the lower of cost or market. The Company has recorded a valuation allowance for slow-moving and obsolete supplies inventories of $0.1 million and $0.8 million at December 31, 2000 and 1999, respectively.

Coal Acquisition Costs and Prepaid Royalties

Coal lease rights obtained through acquisition are capitalized and amortized primarily by the units-of-production method over the estimated recoverable reserves. Amortization occurs as the Company mines on the property. Rights to leased coal lands are often acquired through royalty payments. Where royalty payments represent prepayments recoupable against future production, they are capitalized. As mining occurs on these leases, the prepayment is charged to cost of coal sales.

Coal Supply Agreements

Acquisition costs related to coal supply agreements are capitalized and amortized on the basis of coal to be shipped over the term of the contract. Value is allocated to coal supply agreements based on discounted cash flows attributable to the difference between the above market contract price and the then-prevailing market price. Accumulated amortization for sales contracts was $74.8 million and $54.9 million at December 31, 2000 and 1999, respectively. In January 1999, the Company settled a coal supply agreement dispute with Intermountain Power Agency (IPA) and Coastal. In return for termination of certain indemnification rights and settlement of outstanding

2. Accounting Policies (continued)

Coal Supply Agreements (continued)

receivables, the Company received cash of approximately $11.2 million and a note receivable of $43.7 million (collectively, the settlement). In 1999, the Company distributed the cash received and to be received from the settlement to its Members. In addition, the Company has agreed to supply IPA with 2.2 million tons of coal annually through 2010 (with a mutual option to extend this supply agreement through 2015). The Company has adjusted the carrying value of the coal supply agreements with IPA in the accompanying balance sheet at December 31, 1999 to reflect this settlement.

Exploration Costs

Costs related to locating coal deposits and determining the economic minability of such deposits are expensed as incurred.

Property, Plant and Equipment

Additions to property, plant and equipment are recorded at cost. Maintenance and repair costs are expensed as incurred. Mine development costs are capitalized and amortized on the units-of-production method over the estimated recoverable reserves that are associated with the property being benefited. Depletion of mineral properties is computed on the units-of-production method over the estimated recoverable coal reserves of the property being mined. At December 31, 2000, all mineral reserves of the Company that are capitalized are being amortized on the units-of-production method through Company operations.

Depreciation and amortization of other property, plant and equipment are computed by the straight-line method over the expected lives of the assets, which range from 3 to 16 years. Fully depreciated assets are retained in property and accumulated depreciation accounts until they are removed from service. Upon disposal of depreciated assets, residual cost less salvage value is included in the determination of current income.

2. Accounting Policies (continued)

Asset Impairment

If facts and circumstances suggest that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the value of the asset will not be recoverable, as determined based on projected undiscounted cash flows related to the asset over its remaining life, then the carrying value of the asset is reduced to its estimated fair value.

Reclamation and Mine Closing Costs

The Company charges current reclamation costs to expense as incurred. Final reclamation costs, including dismantling and restoration, are estimated based upon current federal and state regulatory requirements and are accrued during operations using the units-of-production method on the basis of estimated costs as of the balance sheet date. The effect of changes in estimated costs and production is recognized on a prospective basis.

The Company is not aware of any events of noncompliance with environmental laws and regulations. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future cannot be predicted, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

Accrued Workers' Compensation Costs

The Company is liable under the federal Mine Safety and Health Act of 1977, as amended, to provide for pneumoconiosis (black lung) benefits to eligible employees, former employees and dependents with respect to claims filed by such persons on or after July 1, 1973. The Company is also liable under state statutes for black lung benefits. The Company currently provides for federal and state claims principally through a self-insurance program. Charges are being made to operations as determined by independent actuaries, at the present value of the actuarially computed present and future liabilities for such benefits over the employees' applicable years of service. In addition, the Company is liable for traumatic injuries which are accrued as injuries are incurred.

2. Accounting Policies (continued)

Revenue Recognition

Coal sales revenues include sales to customers of coal produced at Company operations and purchased from other companies. The Company recognizes revenue from coal sales at the time title passes to the customer. Revenues from sources other than coal sales, including gains and losses from dispositions of long-term assets, are included in other revenues and are recognized as performed or otherwise earned.

Income Taxes

The financial statements do not include a provision for income taxes, as the Company is treated as a partnership for income tax purposes and does not incur federal or state income taxes. Instead, its earnings and losses are included in the Members' separate income tax returns.

3. Accrued Expenses

Accrued expenses consist of the following:

	December 31	
	2000	1999
	(In Thousands)	
Accrued payroll and related benefits	$3,590	$ 4,261
Accrued pension	624	3,546
Accrued postretirement benefits other than pension	81	-
Accrued taxes other than income taxes	968	543
Accrued workers' compensation	549	798
Other accrued expenses	1,716	2,583
	$7,528	$11,731

4. Employee Benefit Plans

Defined Benefit Pension and Other Postretirement Benefit Plans

Essentially all of the Company's employees are covered by a defined benefit pension plan sponsored by the Company. The benefits are based on years of service and the employee's compensation, primarily during the last five years of service. The funding policy for the pension plan is to make annual contributions as required by applicable regulations.

4. Employee Benefit Plans (continued)

Defined Benefit Pension and Other Postretirement Benefit Plans (continued)

The Company also provides certain postretirement medical and life insurance benefits to substantially all employees who retire with the Company. The Company has the right to modify the plans at any time. The Company's current policy is to fund the cost of postretirement medical and life insurance benefits as they are paid.

Summaries of the changes in the benefit obligation and plan assets (primarily listed stocks and debt securities) and of the funded status of the plans follow:

	Pension Benefits		Other Postretirement Benefits	
	2000	1999	2000	1999
	(In Thousands)			
Change in benefit obligation				
Benefit obligation at January 1	$ 6,638	$ 5,435	$ 9,358	$ 9,493
Service cost	1,760	1,760	271	415
Interest cost	591	338	542	619
Benefits paid	(864)	(94)	(81)	(13)
Plan amendments	-	(482)	(2,888)	-
Other - primarily actuarial (gain) loss	2,129	(319)	(1,417)	(1,156)
Benefit obligation at December 31	$ 10,254	$ 6,638	$ 5,785	$ 9,358
Change in plan assets				
Value of plan assets at January 1	$ 3,247	$ 1,305	$ -	$ -
Actual return on plan assets	(211)	532	-	-
Employer contributions	5,016	1,504	81	13
Benefits paid	(864)	(94)	(81)	(13)
Value of plan assets at December 31	$ 7,188	$ 3,247	$ -	$ -
Funded status of the plans				
Accumulated obligations less plan assets	$ 3,066	$ 3,391	$ 5,785	$ 9,358
Unrecognized actuarial gain (loss)	(2,844)	(287)	1,162	(81)
Unrecognized prior service cost	402	442	1,353	(1,058)
Net liability recognized	$ 624	$ 3,546	$ 8,300	$ 8,219
Balance sheet liabilities				
Current portion of the liability	$ 624	$ 3,546	$ 81	$ -
Long-term portion of the liability	-	-	8,219	8,219
Total accrued benefit liabilities	$ 624	$ 3,546	$ 8,300	$ 8,219

4. Employee Benefit Plans (continued)

Defined Benefit Pension and Other Postretirement Benefit Plans (continued)

Demographic and assumption changes under the defined benefit pension plan resulted in a $2.1 million loss and a $0.3 million gain in 2000 and 1999, respectively. The decrease in the funded status in the year 2000 resulted from decreased earnings on plan assets during the year. Demographic and assumption changes in other postretirement benefits resulted in the $1.4 million and $1.2 million gain in 2000 and 1999, respectively. The $2.9 million reduction in the postretirement benefit obligation in 2000 associated with plan amendments resulted from a July 2000 amendment changing some of the cost-sharing provisions of the plan for salaried and nonunion hourly participants and an October 2000 plan amendment changing eligibility requirements to ten years of service after reaching the age of 45 for salaried and nonunion hourly participants. The latter plan change triggered a curtailment that resulted in the recognition of $0.4 million in previously unrecognized prior service gains.

	Pension Benefits		Other Postretirement Benefits	
	2000	1999	2000	1999
Weighted average assumptions as of December 31				
Discount rate	7.75%	7.50%	7.75%	7.50%
Rate of compensation increase	4.75%	5.25%	N/A	N/A
Expected return on plan assets	9.00%	9.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	5.00%	5.00%

The following table details the components of pension and other postretirement benefit costs:

	Pension Benefits			Other Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
	(In Thousands)					
Service cost	$1,760	$1,760	$1,674	$ 271	$ 415	$ 463
Interest cost	591	338	353	542	619	612
Expected return on plan assets	(648)	(166)	(42)	-	-	-
Other amortization and deferral	391	153	194	(208)	296	383
Curtailments	-	-	-	(443)	-	-
	$2,094	$2,085	$2,179	$ 162	$1,330	$1,458

4. Employee Benefit Plans (continued)

Defined Benefit Pension and Other Postretirement Benefit Plans (continued)

The health care cost trend rate assumption has a significant effect on the amounts reported. However, as the employer contribution cap is expected to be reached in 2001, the impact of health care cost trend rate changes is not material.

Other Plans

The Company sponsors a savings plan which was established to assist eligible employees in providing for their future retirement needs. The savings plan matches a certain percentage of employee contributions. The Company's contribution to the savings plan was $1.3 million in both 2000 and 1999.

5. Concentration of Credit Risk and Major Customers

The Company places its cash equivalents in investment-grade short-term investments and limits the amount of credit exposure to any one commercial issuer.

The Company markets its coal principally to electric utilities in the United States. Generally, credit is extended based on an evaluation of the customer's financial condition, and collateral is not generally required. Credit losses are provided for in the financial statements and historically have been minimal.

The Company is committed under long-term contracts to supply coal that meets certain quality requirements at specified prices. These prices are generally adjusted based on indices. Quantities sold under some of these contracts may vary from year to year within certain limits at the option of the customer. IPA accounted for approximately 44 percent, 34 percent and 29 percent of coal sales in 2000, 1999 and 1998, respectively. This same customer accounted for 53 percent and 39 percent of accounts receivable at December 31, 2000 and 1999, respectively. Sierra Pacific accounted for approximately 12 percent, 11 percent and 11 percent of coal sales in 2000, 1999 and 1998, respectively. Approximately 8 percent, 6 percent and 8 percent of coal sales in 2000, 1999 and 1998, respectively, were export sales to Japanese customers.

6. Related Party Transactions

As described in Note 1, 65 percent of the Company was owned by ARCO and subsequent to June 1, 1998 is owned by Arch Western. ARCO, and now Arch Western, acts as the Company's managing Member. The Company pays administration and production fees to

6. Related Party Transactions (continued)

ARCO and now Arch Western for managing the Company's operations. These fees were $8.0 million, $7.8 million and $5.9 million in 2000, 1999 and 1998, respectively. The Company has a payable balance to Arch Western of $3.8 million and $6.4 million at December 31, 2000 and 1999, respectively.

7. Commitments and Contingencies

The Company has entered into various noncancelable royalty lease agreements and federal lease bonus payments under which future minimum payments are due. On May 24, 1999, the Company was the successful bidder in a federal auction of certain mining rights in the 7,172-acre Pines tract in Sevier and Emory Counties in Utah. The Company's lease bonus bid amounted to $16.9 million for the tract, of which $3.4 million was paid on May 24, 1999 and an additional $3.4 million was paid in 2000. The tract contains approximately 60 million tons of demonstrated coal reserves and is contiguous with the Company's Sufco mine. Geological surveys indicate that there are sufficient reserves relative to these properties to permit recovery of the Company's investment. Minimum payments due in future years under lease agreements (including the Pines tract lease) are $3.4 million in 2001, $3.4 million in 2002 and $3.4 million in 2003.

The Company was in litigation with the Skyline Partners, lessors of the coal reserves which comprise the Company's Skyline Mine. The coal leases required the Company to make annual advance minimum royalty payments which are fully recoupable against a production royalty that is to be paid by the Company on each ton of coal mined and sold from the leaseholds. In 1997, the Company filed suit against Skyline Partners in Utah State Court alleging that the Company was not required to make the final minimum advance royalty payment. On February 24, 2000, the Company and Skyline Partners reached an agreement to settle the litigation. The settlement includes a $7.2 million recoupable payment by the Company to Skyline Partners which was recorded as a prepaid royalty in 2000 and a grant of an overriding royalty interest to Skyline Partners covering land adjacent to the Skyline Mine reserves.

The Company is also the subject of or party to a number of other pending or threatened legal actions. On the basis of management's best assessment of the likely outcome of these actions, expenses or judgments arising from any of these suits are not expected to have a material adverse effect on the Company's operations, financial position or cash flows.

7. Commitments and Contingencies (continued)

Included in property, plant and equipment of the Company is an approximate 9 percent investment in LAXT (recorded at cost) amounting to $10.8 million and $11.5 million as of December 31, 2000 and 1999, respectively. LAXT began operations in 1997 and has been experiencing operating losses and negative cash flow since its inception, principally due to weak demand for U.S. coal exports to the Pacific Rim countries. The ability of LAXT to continue as a going concern is dependent on its improving operating results and obtaining additional financing, if necessary. If these issues are not satisfactorily resolved in a timely manner, there can be no assurance that the Company's investment in LAXT will be recoverable. In January 2001, LAXT owed the Port of Los Angeles a Minimum Annual Guarantee Rental Payment (MAG) of $5.5 million, for which it did not have sufficient funding to make the payment. Currently, LAXT has proposed a plan that would raise additional funding from its Members, reduce certain operating expenses, improve operating performance and explore additional sources of revenue. The plan appears to have support of the Members. The Company believes this plan will be successful and the MAG payment will be made and future operations of LAXT will be profitable in such a manner to allow recovery of the LAXT investment.

8. Cash Flow

The changes in operating assets and liabilities as shown in the statements of cash flows are comprised of the following:

	2000	1999	1998
		(In Thousands)	
Decrease (increase) in operating assets:			
Receivables	$(10,264)	$ 9,500	$(11,023)
Inventories	5,039	(1,588)	8,552
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	(3,930)	5,606	25
Accrued postretirement benefits other than pension	-	1,317	1,463
Accrued reclamation and mine closure	369	487	406
Accrued workers' compensation	626	(833)	2,268
	$ (8,160)	$14,489	$ 1,691

9. Accounting Development

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and

Hedging Activities, which is required to be adopted in years beginning after June 15, 2000. SFAS No. 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. SFAS No. 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets or liabilities through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. SFAS No. 133 will not have a material impact on the earnings and financial position of the Company.