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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2010**
- 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: 333-107569-03

**Arch Western Resources, LLC**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**43-1811130**

(I.R.S. Employer  
Identification Number)

**One CityPlace Drive, Suite 300, St. Louis, Missouri**

(Address of principal executive offices)

**63141**

(Zip code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

At November 15, 2010, the registrant's common equity consisted solely of undenominated membership interests, 99.5% of which were held by Arch Western Acquisition Corporation and 0.5% of which were held by a subsidiary of BP p.l.c.

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## Table of Contents

|  | <u>Page</u> |
|--|-------------|
| <u>Part I FINANCIAL INFORMATION</u>  | 1           |
| <u>Item 1. Financial Statements</u>  | 1           |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 16          |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | 23          |
| <u>Item 4. Controls and Procedures</u>   | 23          |
| <u>Part II OTHER INFORMATION</u>   | 23          |
| <u>Item 1. Legal Proceedings</u>   | 23          |
| <u>Item 1A. Risk Factors</u>   | 23          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 23          |
| <u>Item 3. Defaults Upon Senior Securities</u>   | 23          |
| <u>Item 4. Reserved</u>  | 23          |
| <u>Item 5. Other Information</u>   | 23          |
| <u>Item 6. Exhibits</u>  | 25          |
| <u>EX-31.1</u>   |             |
| <u>EX-31.2</u>   |             |
| <u>EX-32.1</u>   |             |
| <u>EX-32.2</u>   |             |

**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Arch Western Resources, LLC and Subsidiaries**  
**Condensed Consolidated Statements of Income**  
**(In thousands)**

|  | <u>Three Months Ended September 30</u> |                  | <u>Nine Months Ended September 30</u> |                  |
|--|--|------------------|---------------------------------------|------------------|
|  | <u>2010</u>                            | <u>2009</u>      | <u>2010</u>                           | <u>2009</u>      |
|  |  |                  | (unaudited)                           |                  |
| <b>Revenues</b>  |  |                  |                                       |                  |
| Coal sales   | \$ 550,198                             | \$ 390,313       | \$ 1,504,523                          | \$ 1,167,369     |
| <b>Costs, expenses and other</b>                                 |  |                  |                                       |                  |
| Cost of coal sales   | 445,814                                | 323,973          | 1,239,893                             | 1,005,640        |
| Depreciation, depletion and amortization                         | 39,756                                 | 38,290           | 123,883                               | 113,058          |
| Amortization of acquired sales contracts, net                    | 10,038                                 | 78               | 26,005                                | (92)             |
| Selling, general and administrative expenses                     | 8,172                                  | 12,654           | 27,421                                | 29,722           |
| Other operating income, net                                      | (1,093)                                | (3,492)          | (3,597)                               | (5,363)          |
|  | <u>502,687</u>                         | <u>371,503</u>   | <u>1,413,605</u>                      | <u>1,142,965</u> |
| Income from operations   | 47,511                                 | 18,810           | 90,918                                | 24,404           |
| <b>Interest expense, net:</b>                                    |  |                  |                                       |                  |
| Interest expense   | (15,892)                               | (16,915)         | (50,966)                              | (50,264)         |
| Interest income, primarily from Arch Coal, Inc.                  | 13,714                                 | 11,318           | 39,732                                | 34,684           |
|  | <u>(2,178)</u>                         | <u>(5,597)</u>   | <u>(11,234)</u>                       | <u>(15,580)</u>  |
| <b>Other non-operating expense</b>                               |  |                  |                                       |                  |
| Loss on early extinguishment of debt                             | (6,776)                                | —                | (6,776)                               | —                |
|  | <u>(6,776)</u>                         | <u>—</u>         | <u>(6,776)</u>                        | <u>—</u>         |
| Net income   | <u>\$ 38,557</u>                       | <u>\$ 13,213</u> | <u>\$ 72,908</u>                      | <u>\$ 8,824</u>  |
| Net income (loss) attributable to redeemable membership interest | \$ 181                                 | \$ 31            | \$ 325                                | \$ (11)          |
| Net income attributable to non-redeemable membership interest    | \$ 38,376                              | \$ 13,182        | \$ 72,583                             | \$ 8,835         |

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

**Arch Western Resources, LLC and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**(In thousands)**

|  | <u>September 30,</u><br><u>2010</u><br>(unaudited) | <u>December 31,</u><br><u>2009</u> |
|--|--|------------------------------------|
| <b>ASSETS</b>                                      |  |                                    |
| Current assets:                                    |  |                                    |
| Cash and cash equivalents                          | \$ 61,911  | \$ 6,819                           |
| Receivables  | 2,234  | 8,379                              |
| Inventories  | 140,878  | 165,650                            |
| Other  | 17,151   | 23,350                             |
| Total current assets                               | <u>222,174</u>                                     | <u>204,198</u>                     |
| Property, plant and equipment, net                 | 1,487,723  | 1,548,300                          |
| Other assets:                                      |  |                                    |
| Receivable from Arch Coal, Inc.                    | 1,440,112  | 1,541,243                          |
| Other  | 11,509   | 14,172                             |
| Total other assets                                 | <u>1,451,621</u>                                   | <u>1,555,415</u>                   |
| Total assets                                       | <u>\$ 3,161,518</u>                                | <u>\$ 3,307,913</u>                |
| <b>LIABILITIES AND MEMBERSHIP INTERESTS</b>        |  |                                    |
| Current liabilities:                               |  |                                    |
| Accounts payable                                   | \$ 98,486  | \$ 74,508                          |
| Accrued expenses                                   | 129,200  | 144,432                            |
| Commercial paper                                   | 55,716   | 49,452                             |
| Total current liabilities                          | <u>283,402</u>                                     | <u>268,392</u>                     |
| Long-term debt                                     | 451,780  | 954,782                            |
| Note payable to Arch Coal, Inc.                    | 225,000  | —                                  |
| Asset retirement obligations                       | 291,756  | 274,914                            |
| Accrued postretirement benefits other than pension | 29,473   | 28,819                             |
| Accrued pension benefits                           | 35,745   | 34,523                             |
| Accrued workers' compensation                      | 3,848  | 4,067                              |
| Other noncurrent liabilities                       | 52,391   | 26,744                             |
| Total liabilities                                  | <u>1,373,395</u>                                   | <u>1,592,241</u>                   |
| Redeemable membership interest                     | 10,173   | 8,962                              |
| Non-redeemable membership interest                 | <u>1,777,950</u>                                   | <u>1,706,710</u>                   |
| Total liabilities and membership interests         | <u>\$ 3,161,518</u>                                | <u>\$ 3,307,913</u>                |

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

**Arch Western Resources, LLC and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(In thousands)**

|   | <b>Nine Months Ended September 30</b> |                 |
|---|---------------------------------------|-----------------|
|   | <b>2010</b>                           | <b>2009</b>     |
|   | (unaudited)                           |                 |
| <b>OPERATING ACTIVITIES</b>   |                                       |                 |
| Net income  | \$ 72,908                             | \$ 8,824        |
| Adjustments to reconcile net income to cash provided by operating activities: |                                       |                 |
| Depreciation, depletion and amortization                                      | 123,883                               | 113,058         |
| Amortization of acquired sales contracts, net                                 | 26,005                                | (92)            |
| Loss on early extinguishment of debt  | 6,776                                 | —               |
| Changes in:   |                                       |                 |
| Receivables   | 6,145                                 | (2,006)         |
| Inventories   | 24,772                                | (17,818)        |
| Accounts payable and accrued expenses   | 12,142                                | (42,529)        |
| Other   | 50,529                                | 47,279          |
| Cash provided by operating activities   | <u>323,160</u>                        | <u>106,716</u>  |
| <b>INVESTING ACTIVITIES</b>   |                                       |                 |
| Capital expenditures  | (66,828)                              | (106,766)       |
| Change in receivable from Arch Coal, Inc.                                     | 75,383                                | 21,760          |
| Proceeds from dispositions of property, plant and equipment                   | 74                                    | 80              |
| Additions to prepaid royalties  | (2,835)                               | (2,409)         |
| Reimbursement of deposits on equipment  | —                                     | 3,209           |
| Cash provided by (used in) investing activities                               | <u>5,794</u>                          | <u>(84,126)</u> |
| <b>FINANCING ACTIVITIES</b>   |                                       |                 |
| Repayment of long-term debt, including redemption premium                     | (505,627)                             | —               |
| Loan from Arch Coal, Inc.   | 225,000                               | —               |
| Net proceeds from (repayments on) commercial paper                            | 6,264                                 | (22,059)        |
| Debt financing costs  | (390)                                 | (140)           |
| Contribution from non-redeemable membership interest                          | 891                                   | —               |
| Cash used in financing activities   | <u>(273,862)</u>                      | <u>(22,199)</u> |
| Increase in cash and cash equivalents   | 55,092                                | 391             |
| Cash and cash equivalents, beginning of period                                | <u>6,819</u>                          | <u>2,851</u>    |
| Cash and cash equivalents, end of period                                      | <u>\$ 61,911</u>                      | <u>\$ 3,242</u> |

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

**Arch Western Resources, LLC and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Arch Western Resources, LLC and its subsidiaries and controlled entities (the "Company"). Arch Coal, Inc. ("Arch Coal") has a 99.5% common membership interest in the Company, while BP p.l.c. has a 0.5% common membership interest and a preferred membership interest in the Company. The terms of the Company's membership agreement grant a put right to BP p.l.c., where BP p.l.c. may require Arch Coal to purchase its membership interest. The terms of the agreement state that the price of the membership interest shall be determined by mutual agreement between the members. Intercompany transactions and accounts have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and U.S. Securities and Exchange Commission regulations. In the opinion of management, all adjustments, consisting of normal, recurring accruals considered necessary for a fair presentation, have been included. Results of operations for the three and nine month periods ended September 30, 2010 are not necessarily indicative of results to be expected for the year ending December 31, 2010. These financial statements should be read in conjunction with the audited financial statements and related notes as of and for the year ended December 31, 2009 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

**2. Accounting Policies**

There are no new accounting pronouncements whose adoption is expected to have a material impact on the Company's condensed consolidated financial statements.

**3. Debt**

*Refinancing of senior notes*

On September 8, 2010, the Company redeemed \$500.0 million aggregate principal amount of the outstanding 6.75% senior notes at a redemption price of 101.125%. The Company funded this redemption with cash transferred from Arch Coal in the form of a loan of \$225.0 million and a repayment of a portion of the balance receivable from Arch Coal. See Note 7, "Related Party Transactions" for details on the loan. The Company recognized a loss on the redemption of \$6.8 million, including the payment of the \$5.6 million redemption premium, the write-off of \$3.3 million of unamortized debt financing costs, partially offset by the write-off of \$2.1 million of the original issue premium on the 6.75% senior notes.

The loan was made pursuant to an intercompany credit agreement with Arch Coal. Under the intercompany credit agreement, the Company may borrow up to \$675.0 million through July 1, 2013, or such later date as designated by Arch Coal. Interest on loans outstanding under the agreement is calculated at a per annum rate equal to the three month LIBOR rate plus 200 or 250 basis points, depending on the Company's leverage ratio, as defined in the agreement, at the date the rate is determined. Interest is due on any outstanding loans on the first day of each calendar quarter. The Company may repay the balance of the loan at any time, in whole or in part, without penalty. It is currently management's intention not to prepay the balance of the loan within the next year. Therefore, the loan is classified on the accompanying condensed consolidated balance sheets as noncurrent.

*Amendments to agreements*

On March 25, 2010, the Company entered into an amendment to its commercial paper program which decreased the maximum aggregate principal amount of the program to \$75 million from \$100 million. The commercial paper program is supported by a line of credit that expires on April 30, 2011.

#### 4. Inventories

Inventories consist of the following:

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
|   | (In thousands)        |                      |
| Coal  | \$ 33,070             | \$ 42,316            |
| Repair parts and supplies, net of allowance | 107,808               | 123,334              |
|   | <u>\$ 140,878</u>     | <u>\$ 165,650</u>    |

The repair parts and supplies are stated net of an allowance for slow-moving and obsolete inventories of \$13.2 million at September 30, 2010, and \$12.6 million at December 31, 2009.

#### 5. 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:* At September 30, 2010 and December 31, 2009, the carrying amounts of cash and cash equivalents approximate fair value.

*Debt:* The fair value of the Company's debt, including commercial paper and excluding intercompany debt, was \$511.3 million and \$992.3 million at September 30, 2010 and December 31, 2009, respectively. Fair values are based upon observed prices in active markets when available or from valuation models using market information.

#### 6. Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income items are transactions recorded in membership interests during the year, excluding net income and transactions with members.

The following table presents the components of comprehensive income:

|  | Three Months Ended<br>September 30 |                  | Nine Months Ended<br>September 30 |                  |
|--|------------------------------------|------------------|-----------------------------------|------------------|
|  | 2010                               | 2009             | 2010                              | 2009             |
|  | (In thousands)                     |                  |                                   |                  |
| Net income   | \$ 38,557                          | \$ 13,213        | \$ 72,908                         | \$ 8,824         |
| Other comprehensive income:  |                                    |                  |                                   |                  |
| Pension, postretirement and other post-employment benefits — reclassifications into net income | (425)                              | 14,387           | (1,276)                           | 14,680           |
| Total comprehensive income   | <u>\$ 38,132</u>                   | <u>\$ 27,600</u> | <u>\$ 71,632</u>                  | <u>\$ 23,504</u> |

#### 7. Related Party Transactions

Transactions with Arch Coal may not be at arm's length. If the transactions were negotiated with an unrelated party, the impact could be material to the Company's results of operations.

The Company's cash transactions are managed by Arch Coal. Cash paid to or from the Company that is not considered a distribution, a contribution, or a loan is recorded in an Arch Coal receivable account. In addition, any amounts owed between the Company and Arch Coal are recorded in the account. At September 30, 2010 and December 31, 2009 the receivable from Arch Coal was approximately \$1.4 billion and \$1.5 billion, respectively. This amount earns interest from Arch Coal at the prime interest rate. Interest earned on the note was \$13.6 million and \$11.3 million for the three months ended September 30, 2010 and 2009, respectively, and \$39.4 million and \$34.6 million for the nine months ended September 30, 2010 and 2009, respectively. The receivable is payable on demand; however, it is currently management's intention to not demand payment of the receivable within the next year. Therefore, the receivable is classified on the accompanying condensed consolidated balance sheets as noncurrent.

As mentioned in Note 3 "Debt", during the third quarter of 2010, the Company received a loan of \$225.0 million and a repayment of a portion of the balance receivable from Arch Coal to redeem \$500.0 million aggregate principal amount of



## [Table of Contents](#)

the outstanding 6.75% senior notes at a redemption price of 101.125%. Interest on the loan was \$0.4 million for the three months ended September 30, 2010.

The Company is a party to Arch Coal's accounts receivable securitization program. Under the program, the Company sells its receivables to Arch Coal without recourse at a discount based on the prime interest rate and days sales outstanding. During the three months ended September 30, 2010 and 2009, the Company sold \$442.3 million and \$315.8 million, respectively, of trade accounts receivable to Arch Coal at a total discount of \$1.0 million and \$0.7 million, respectively. During the nine months ended September 30, 2010 and 2009, the Company sold \$1.3 billion and \$1.0 billion, respectively, of trade accounts receivable to Arch Coal at a discount of \$3.0 million and \$2.5 million, respectively. These transactions are recorded through the Arch Coal receivable account.

For the three month periods ended September 30, 2010 and 2009, the Company incurred production royalties of \$27.0 million and \$10.1 million, respectively, payable to Arch Coal under sublease agreements. For the nine month periods ended September 30, 2010 and 2009, the Company incurred production royalties of \$65.9 million and \$31.3 million, respectively, payable to Arch Coal under sublease agreements. These amounts are reported as cost of coal sales in the accompanying condensed consolidated statements of income.

The Company is charged selling, general and administrative services fees by Arch Coal. Expenses are allocated based on Arch Coal's best estimates of proportional or incremental costs, whichever is more representative of costs incurred by Arch Coal on behalf of the Company. Amounts allocated to the Company by Arch Coal were \$8.2 million and \$12.7 million for the three months ended September 30, 2010 and 2009, respectively, and \$27.4 million and \$29.7 million for the nine months ended September 30, 2010 and 2009, respectively. Such amounts are reported as selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

### **8. Contingencies**

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

### **9. Segment Information**

The Company has two reportable business segments, which are based on the major low-sulfur coal basins in which the Company operates. Both of these reportable business segments include a number of mine complexes. The Company manages its coal sales by coal basin, not by individual mine complex. Geology, coal transportation routes to customers, regulatory environments and coal quality are generally consistent within a basin. Accordingly, market and contract pricing have developed by coal basin. Mine operations are evaluated based on their per-ton operating costs (defined as including all mining costs but excluding pass-through transportation expenses), as well as on other non-financial measures, such as safety and environmental performance. The Company's reportable segments are the Powder River Basin (PRB) segment, with operations in Wyoming, and the Western Bituminous (WBIT) segment, with operations in Utah, Colorado and southern Wyoming.

Operating segment results for the three and nine month periods ended September 30, 2010 and 2009 are presented below. Results for the operating segments include all direct costs of mining. Corporate, Other and Eliminations includes corporate overhead, other support functions, and the elimination of intercompany transactions.

The asset amounts below represent an allocation of assets used in the segments' cash-generating activities. The amounts in the Corporate, Other and Eliminations represent primarily intercompany receivables.

[Table of Contents](#)

|   | <u>PRB</u>     | <u>WBIT</u> | <u>Corporate,<br/>Other and<br/>Eliminations</u> | <u>Consolidated</u> |
|---|----------------|-------------|--|---------------------|
|   | (In thousands) |             |  |                     |
| <b>Three months ended September 30, 2010</b>  |                |             |  |                     |
| Coal sales                                    | \$ 412,165     | \$ 138,033  | \$ —   | \$ 550,198          |
| Income from operations                        | 39,450         | 15,190      | (7,129)  | 47,511              |
| Depreciation, depletion and amortization      | 21,752         | 18,004      | —  | 39,756              |
| Amortization of acquired sales contracts, net | 10,038         | —           | —  | 10,038              |
| Capital expenditures                          | 7,922          | 20,703      | —  | 28,625              |
| <b>Three months ended September 30, 2009</b>  |                |             |  |                     |
| Coal sales                                    | \$ 242,022     | \$ 148,291  | \$ —   | \$ 390,313          |
| Income from operations                        | 11,112         | 17,083      | (9,385)  | 18,810              |
| Depreciation, depletion and amortization      | 17,434         | 20,856      | —  | 38,290              |
| Amortization of acquired sales contracts, net | 78             | —           | —  | 78                  |
| Capital expenditures                          | 7,518          | 13,871      | —  | 21,389              |
| <b>Nine months ended September 30, 2010</b>   |                |             |  |                     |
| Coal sales                                    | \$ 1,101,700   | \$ 402,823  | \$ —   | \$ 1,504,523        |
| Income from operations                        | 74,311         | 41,500      | (24,893)   | 90,918              |
| Total assets                                  | 1,037,767      | 649,791     | 1,473,960  | 3,161,518           |
| Depreciation, depletion and amortization      | 67,452         | 56,431      | —  | 123,883             |
| Amortization of acquired sales contracts, net | 26,005         | —           | —  | 26,005              |
| Capital expenditures                          | 12,321         | 54,507      | —  | 66,828              |
| <b>Nine months ended September 30, 2009</b>   |                |             |  |                     |
| Coal sales                                    | \$ 786,117     | \$ 381,252  | \$ —   | \$ 1,167,369        |
| Income from operations                        | 45,834         | 5,781       | (27,211)   | 24,404              |
| Total assets                                  | 835,601        | 708,157     | 1,512,800  | 3,056,558           |
| Depreciation, depletion and amortization      | 54,038         | 59,020      | —  | 113,058             |
| Amortization of acquired sales contracts, net | 219            | (311)       | —  | (92)                |
| Capital expenditures                          | 49,389         | 57,377      | —  | 106,766             |

A reconciliation of segment income from operations to consolidated net income is presented below.

|                                      | <u>Three Months Ended<br/>September 30</u> |                  | <u>Nine Months Ended<br/>September 30</u> |                 |
|--------------------------------------|--|------------------|---|-----------------|
|                                      | <u>2010</u>                                | <u>2009</u>      | <u>2010</u>                               | <u>2009</u>     |
|                                      | (In thousands)                             |                  |   |                 |
| Income from operations               | \$ 47,511                                  | \$ 18,810        | \$ 90,918                                 | \$ 24,404       |
| Interest expense                     | (15,892)                                   | (16,915)         | (50,966)                                  | (50,264)        |
| Interest income                      | 13,714                                     | 11,318           | 39,732                                    | 34,684          |
| Loss on early extinguishment of debt | (6,776)                                    | —                | (6,776)                                   | —               |
| Net income                           | <u>\$ 38,557</u>                           | <u>\$ 13,213</u> | <u>\$ 72,908</u>                          | <u>\$ 8,824</u> |

**10. Supplemental Condensed Consolidating Financial Information**

Pursuant to the indenture governing the Arch Western Finance senior notes, certain wholly-owned subsidiaries of the Company have fully and unconditionally guaranteed the senior notes on a joint and several basis. The following tables present condensed consolidating financial information for (i) the Company, (ii) the issuer of the senior notes (Arch Western Finance, LLC, a wholly-owned subsidiary of the Company), (iii) the Company's wholly-owned subsidiaries (Thunder Basin Coal Company, LLC, Mountain Coal Company, LLC, and Arch of Wyoming, LLC), on a combined basis, which are guarantors under the Notes, and (iv) the Company's majority-owned subsidiary, Canyon Fuel LLC, which is not a guarantor under the Notes.

**Condensed Consolidating Statements of Income**  
**Three Months Ended September 30, 2010**  
**(in thousands)**

|  | <u>Parent Company</u> | <u>Issuer</u>     | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|-----------------------|-------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Coal sales                                       | \$ —                  | \$ —              | \$ 451,092                        | \$ 99,106                             | \$ —                | \$ 550,198          |
| Cost of coal sales                               | (995)                 | —                 | 368,282                           | 78,527                                | —                   | 445,814             |
| Depreciation, depletion and<br>amortization      | —                     | —                 | 28,664                            | 11,092                                | —                   | 39,756              |
| Amortization of acquired sales<br>contracts, net | —                     | —                 | 10,038                            | —                                     | —                   | 10,038              |
| Selling, general and administrative<br>expenses  | 8,172                 | —                 | —                                 | —                                     | —                   | 8,172               |
| Other operating income, net                      | (47)                  | —                 | (782)                             | (264)                                 | —                   | (1,093)             |
|  | <u>7,130</u>          | <u>—</u>          | <u>406,202</u>                    | <u>89,355</u>                         | <u>—</u>            | <u>502,687</u>      |
| Income from investment in<br>subsidiaries        | 46,881                | —                 | —                                 | —                                     | (46,881)            | —                   |
| Income from operations                           | 39,751                | —                 | 44,890                            | 9,751                                 | (46,881)            | 47,511              |
| Interest expense                                 | (14,779)              | (14,132)          | —                                 | (199)                                 | 13,218              | (15,892)            |
| Interest income                                  | 13,585                | 13,218            | 100                               | 29                                    | (13,218)            | 13,714              |
|  | <u>(1,194)</u>        | <u>(914)</u>      | <u>100</u>                        | <u>(170)</u>                          | <u>—</u>            | <u>(2,178)</u>      |
| Other nonoperating expense                       | —                     | —                 | —                                 | —                                     | —                   | —                   |
| Loss on early extinguishment of debt             | —                     | (6,776)           | —                                 | —                                     | —                   | (6,776)             |
| Net income (loss)                                | <u>\$ 38,557</u>      | <u>\$ (7,690)</u> | <u>\$ 44,990</u>                  | <u>\$ 9,581</u>                       | <u>\$ (46,881)</u>  | <u>\$ 38,557</u>    |

**Condensed Consolidating Statements of Income**  
**Three Months Ended September 30, 2009**  
**(in thousands)**

|  | <u>Parent Company</u> | <u>Issuer</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|-----------------------|---------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Coal sales                                       | \$ —                  | \$ —          | \$ 272,170                        | \$ 118,143                            | \$ —                | \$ 390,313          |
| Cost of coal sales                               | (220)                 | —             | 242,086                           | 82,508                                | (401)               | 323,973             |
| Depreciation, depletion and<br>amortization      | —                     | —             | 23,277                            | 15,013                                | —                   | 38,290              |
| Amortization of acquired sales<br>contracts, net | —                     | —             | 78                                | —                                     | —                   | 78                  |
| Selling, general and administrative<br>expenses  | 12,654                | —             | —                                 | —                                     | —                   | 12,654              |
| Other operating income, net                      | (3,049)               | —             | (440)                             | (404)                                 | 401                 | (3,492)             |
|  | <u>9,385</u>          | <u>—</u>      | <u>265,001</u>                    | <u>97,117</u>                         | <u>—</u>            | <u>371,503</u>      |
| Income from investment in<br>subsidiaries        | 28,064                | —             | —                                 | —                                     | (28,064)            | —                   |
| Income from operations                           | 18,679                | —             | 7,169                             | 21,026                                | (28,064)            | 18,810              |
| Interest expense                                 | (16,745)              | (15,940)      | 1                                 | (262)                                 | 16,031              | (16,915)            |
| Interest income                                  | 11,279                | 16,031        | 1                                 | 38                                    | (16,031)            | 11,318              |
|  | <u>(5,466)</u>        | <u>91</u>     | <u>2</u>                          | <u>(224)</u>                          | <u>—</u>            | <u>(5,597)</u>      |
| Net income                                       | <u>\$ 13,213</u>      | <u>\$ 91</u>  | <u>\$ 7,171</u>                   | <u>\$ 20,802</u>                      | <u>\$ (28,064)</u>  | <u>\$ 13,213</u>    |

**Condensed Consolidating Statements of Income**  
**Nine Months Ended September 30, 2010**  
**(in thousands)**

|  | <u>Parent Company</u> | <u>Issuer</u>     | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|-----------------------|-------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Coal sales                                       | \$ —                  | \$ —              | \$ 1,216,688                      | \$ 287,835                            | \$ —                | \$ 1,504,523        |
| Cost of coal sales                               | (2,116)               | —                 | 1,018,475                         | 226,098                               | (2,564)             | 1,239,893           |
| Depreciation, depletion and<br>amortization      | —                     | —                 | 87,358                            | 36,525                                | —                   | 123,883             |
| Amortization of acquired sales<br>contracts, net | —                     | —                 | 26,005                            | —                                     | —                   | 26,005              |
| Selling, general and administrative<br>expenses  | 27,421                | —                 | —                                 | —                                     | —                   | 27,421              |
| Other operating income, net                      | (412)                 | —                 | (2,314)                           | (3,435)                               | 2,564               | (3,597)             |
|  | <u>24,893</u>         | <u>—</u>          | <u>1,129,524</u>                  | <u>259,188</u>                        | <u>—</u>            | <u>1,413,605</u>    |
| Income from investment in<br>subsidiaries        | 107,456               | —                 | —                                 | —                                     | (107,456)           | —                   |
| Income from operations                           | 82,563                | —                 | 87,164                            | 28,647                                | (107,456)           | 90,918              |
| Interest expense                                 | (49,030)              | (46,592)          | —                                 | (625)                                 | 45,281              | (50,966)            |
| Interest income                                  | 39,375                | 45,281            | 287                               | 70                                    | (45,281)            | 39,732              |
|  | <u>(9,655)</u>        | <u>(1,311)</u>    | <u>287</u>                        | <u>(555)</u>                          | <u>—</u>            | <u>(11,234)</u>     |
| Other nonoperating expense                       | —                     | —                 | —                                 | —                                     | —                   | —                   |
| Loss on early extinguishment of debt             | —                     | (6,776)           | —                                 | —                                     | —                   | (6,776)             |
| Net income (loss)                                | <u>\$ 72,908</u>      | <u>\$ (8,087)</u> | <u>\$ 87,451</u>                  | <u>\$ 28,092</u>                      | <u>\$ (107,456)</u> | <u>\$ 72,908</u>    |

**Condensed Consolidating Statements of Income**  
**Nine Months Ended September 30, 2009**  
**(in thousands)**

|  | <u>Parent Company</u> | <u>Issuer</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|-----------------------|---------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Coal sales                                       | \$ —                  | \$ —          | \$ 881,317                        | \$ 286,052                            | \$ —                | \$ 1,167,369        |
| Cost of coal sales                               | 644                   | —             | 789,371                           | 217,493                               | (1,868)             | 1,005,640           |
| Depreciation, depletion and<br>amortization      | —                     | —             | 72,424                            | 40,634                                | —                   | 113,058             |
| Amortization of acquired sales<br>contracts, net | —                     | —             | (92)                              | —                                     | —                   | (92)                |
| Selling, general and administrative<br>expenses  | 29,722                | —             | —                                 | —                                     | —                   | 29,722              |
| Other operating income, net                      | (3,181)               | —             | (1,652)                           | (2,398)                               | 1,868               | (5,363)             |
|  | <u>27,185</u>         | <u>—</u>      | <u>860,051</u>                    | <u>255,729</u>                        | <u>—</u>            | <u>1,142,965</u>    |
| Income from investment in<br>subsidiaries        | 52,203                | —             | —                                 | —                                     | (52,203)            | —                   |
| Income from operations                           | 25,018                | —             | 21,266                            | 30,323                                | (52,203)            | 24,404              |
| Interest expense                                 | (50,647)              | (47,977)      | 983                               | (717)                                 | 48,094              | (50,264)            |
| Interest income                                  | 34,453                | 48,094        | 30                                | 201                                   | (48,094)            | 34,684              |
|  | <u>(16,194)</u>       | <u>117</u>    | <u>1,013</u>                      | <u>(516)</u>                          | <u>—</u>            | <u>(15,580)</u>     |
| Net income                                       | <u>\$ 8,824</u>       | <u>\$ 117</u> | <u>\$ 22,279</u>                  | <u>\$ 29,807</u>                      | <u>\$ (52,203)</u>  | <u>\$ 8,824</u>     |

**Condensed Consolidating Balance Sheets**  
**September 30, 2010**  
(in thousands)

|   | <u>Parent Company</u> | <u>Issuer</u>     | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u>   | <u>Consolidated</u> |
|---|-----------------------|-------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------|
| Cash and cash equivalents                             | \$ 1,769              | \$ —              | \$ 60,060                         | \$ 82                                 | \$ —                  | \$ 61,911           |
| Receivables   | 826                   | —                 | 849                               | 559                                   | —                     | 2,234               |
| Inventories   | —                     | —                 | 106,660                           | 34,218                                | —                     | 140,878             |
| Other   | 3,133                 | 1,008             | 4,849                             | 8,161                                 | —                     | 17,151              |
| Total current assets                                  | <u>5,728</u>          | <u>1,008</u>      | <u>172,418</u>                    | <u>43,020</u>                         | <u>—</u>              | <u>222,174</u>      |
| Property, plant and equipment, net                    | —                     | —                 | 1,217,491                         | 270,232                               | —                     | 1,487,723           |
| Investment in subsidiaries                            | 2,730,081             | —                 | —                                 | —                                     | (2,730,081)           | —                   |
| Receivable from Arch Coal, Inc.                       | 1,422,379             | —                 | —                                 | 17,733                                | —                     | 1,440,112           |
| Intercompanies  | (2,072,038)           | 462,995           | 1,313,682                         | 295,361                               | —                     | —                   |
| Other   | 1,293                 | 1,775             | 4,163                             | 4,278                                 | —                     | 11,509              |
| Total other assets                                    | <u>2,081,715</u>      | <u>464,770</u>    | <u>1,317,845</u>                  | <u>317,372</u>                        | <u>(2,730,081)</u>    | <u>1,451,621</u>    |
| Total assets  | <u>\$ 2,087,443</u>   | <u>\$ 465,778</u> | <u>\$ 2,707,754</u>               | <u>\$ 630,624</u>                     | <u>\$ (2,730,081)</u> | <u>\$ 3,161,518</u> |
| Accounts payable                                      | \$ 1,864              | \$ —              | \$ 82,423                         | \$ 14,199                             | \$ —                  | \$ 98,486           |
| Accrued expenses                                      | 3,052                 | 7,594             | 106,991                           | 11,563                                | —                     | 129,200             |
| Commercial paper                                      | 55,716                | —                 | —                                 | —                                     | —                     | 55,716              |
| Total current liabilities                             | <u>60,632</u>         | <u>7,594</u>      | <u>189,414</u>                    | <u>25,762</u>                         | <u>—</u>              | <u>283,402</u>      |
| Long-term debt  | —                     | 451,780           | —                                 | —                                     | —                     | 451,780             |
| Note payable to Arch Coal, Inc.                       | 225,000               | —                 | —                                 | —                                     | —                     | 225,000             |
| Asset retirement obligations                          | —                     | —                 | 281,115                           | 10,641                                | —                     | 291,756             |
| Accrued postretirement benefits other<br>than pension | 6,363                 | —                 | 15,005                            | 8,105                                 | —                     | 29,473              |
| Accrued pension benefits                              | 7,152                 | —                 | 20,573                            | 8,020                                 | —                     | 35,745              |
| Accrued workers' compensation                         | (1,470)               | —                 | 1,240                             | 4,078                                 | —                     | 3,848               |
| Other noncurrent liabilities                          | 1,643                 | —                 | 50,683                            | 65                                    | —                     | 52,391              |
| Total liabilities                                     | <u>299,320</u>        | <u>459,374</u>    | <u>558,030</u>                    | <u>56,671</u>                         | <u>—</u>              | <u>1,373,395</u>    |
| Redeemable membership interest                        | 10,173                | —                 | —                                 | —                                     | —                     | 10,173              |
| Non-redeemable membership interest                    | 1,777,950             | 6,404             | 2,149,724                         | 573,953                               | (2,730,081)           | 1,777,950           |
| Total liabilities and membership<br>interests         | <u>\$ 2,087,443</u>   | <u>\$ 465,778</u> | <u>\$ 2,707,754</u>               | <u>\$ 630,624</u>                     | <u>\$ (2,730,081)</u> | <u>\$ 3,161,518</u> |

**Condensed Consolidating Balance Sheets**  
**December 31, 2009**  
(in thousands)

|   | <u>Parent Company</u> | <u>Issuer</u>       | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u>   | <u>Consolidated</u> |
|---|-----------------------|---------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------|
| Cash and cash equivalents                             | \$ 6,714              | \$ —                | \$ 61                             | \$ 44                                 | \$ —                  | \$ 6,819            |
| Receivables   | 5,536                 | —                   | 2,123                             | 720                                   | —                     | 8,379               |
| Inventories   | —                     | —                   | 127,907                           | 37,743                                | —                     | 165,650             |
| Other   | 10,423                | 2,153               | 3,892                             | 6,882                                 | —                     | 23,350              |
| Total current assets                                  | <u>22,673</u>         | <u>2,153</u>        | <u>133,983</u>                    | <u>45,389</u>                         | <u>—</u>              | <u>204,198</u>      |
| Property, plant and equipment, net                    | —                     | —                   | 1,258,695                         | 289,605                               | —                     | 1,548,300           |
| Investment in subsidiaries                            | 2,621,530             | —                   | —                                 | —                                     | (2,621,530)           | —                   |
| Receivable from Arch Coal, Inc                        | 1,509,032             | —                   | —                                 | 32,211                                | —                     | 1,541,243           |
| Intercompanies  | (2,364,534)           | 993,857             | 1,141,474                         | 229,203                               | —                     | —                   |
| Other   | 1,785                 | 5,325               | 2,543                             | 4,519                                 | —                     | 14,172              |
| Total other assets                                    | <u>1,767,813</u>      | <u>999,182</u>      | <u>1,144,017</u>                  | <u>265,933</u>                        | <u>(2,621,530)</u>    | <u>1,555,415</u>    |
| Total assets  | <u>\$ 1,790,486</u>   | <u>\$ 1,001,335</u> | <u>\$ 2,536,695</u>               | <u>\$ 600,927</u>                     | <u>\$ (2,621,530)</u> | <u>\$ 3,307,913</u> |
| Accounts payable                                      | \$ 4,176              | \$ —                | \$ 55,514                         | \$ 14,818                             | \$ —                  | \$ 74,508           |
| Accrued expenses                                      | 2,885                 | 32,063              | 97,649                            | 11,835                                | —                     | 144,432             |
| Commercial paper                                      | 49,452                | —                   | —                                 | —                                     | —                     | 49,452              |
| Total current liabilities                             | <u>56,513</u>         | <u>32,063</u>       | <u>153,163</u>                    | <u>26,653</u>                         | <u>—</u>              | <u>268,392</u>      |
| Long-term debt  | —                     | 954,782             | —                                 | —                                     | —                     | 954,782             |
| Asset retirement obligations                          | —                     | —                   | 264,873                           | 10,041                                | —                     | 274,914             |
| Accrued postretirement benefits<br>other than pension | 6,346                 | —                   | 14,858                            | 7,615                                 | —                     | 28,819              |
| Accrued pension benefits                              | 11,307                | —                   | 16,936                            | 6,280                                 | —                     | 34,523              |
| Accrued workers' compensation                         | (1,199)               | —                   | 1,217                             | 4,049                                 | —                     | 4,067               |
| Other noncurrent liabilities                          | 1,847                 | —                   | 24,864                            | 33                                    | —                     | 26,744              |
| Total liabilities                                     | <u>74,814</u>         | <u>986,845</u>      | <u>475,911</u>                    | <u>54,671</u>                         | <u>—</u>              | <u>1,592,241</u>    |
| Redeemable membership interest                        | 8,962                 | —                   | —                                 | —                                     | —                     | 8,962               |
| Non-redeemable membership<br>interest                 | 1,706,710             | 14,490              | 2,060,784                         | 546,256                               | (2,621,530)           | 1,706,710           |
| Total liabilities and membership<br>interests         | <u>\$ 1,790,486</u>   | <u>\$ 1,001,335</u> | <u>\$ 2,536,695</u>               | <u>\$ 600,927</u>                     | <u>\$ (2,621,530)</u> | <u>\$ 3,307,913</u> |



**Condensed Consolidating Statements of Cash Flows**  
**Nine Months Ended September 30, 2010**  
**(in thousands)**

|   | <u>Parent Company</u> | <u>Issuer</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Consolidated</u> |
|---|-----------------------|---------------|-----------------------------------|---------------------------------------|---------------------|
| Cash provided by (used in) operating activities             | \$ (30,882)           | (25,220)      | \$ 310,083                        | \$ 69,179                             | \$ 323,160          |
| Investing Activities  |                       |               |                                   |                                       |                     |
| Capital expenditures  | —                     | —             | (49,664)                          | (17,164)                              | (66,828)            |
| Change in receivable from Arch Coal, Inc                    | 60,905                | —             | —                                 | 14,478                                | 75,383              |
| Proceeds from dispositions of property, plant and equipment | —                     | —             | 45                                | 29                                    | 74                  |
| Additions to prepaid royalties                              | —                     | —             | (2,509)                           | (326)                                 | (2,835)             |
| Cash provided by (used in) investing activities             | 60,905                | —             | (52,128)                          | (2,983)                               | 5,794               |
| Financing Activities  |                       |               |                                   |                                       |                     |
| Repayment of long-term debt, including redemption premium   | —                     | (505,627)     | —                                 | —                                     | (505,627)           |
| Loan from Arch Coal, Inc                                    | 225,000               | —             | —                                 | —                                     | 225,000             |
| Net proceeds from commercial paper                          | 6,264                 | —             | —                                 | —                                     | 6,264               |
| Debt financing costs  | (375)                 | (15)          | —                                 | —                                     | (390)               |
| Contribution from non-redeemable membership interest        | 891                   | —             | —                                 | —                                     | 891                 |
| Transactions with affiliates, net                           | (266,748)             | 530,862       | (197,956)                         | (66,158)                              | —                   |
| Cash provided by (used in) financing activities             | (34,968)              | 25,220        | (197,956)                         | (66,158)                              | (273,862)           |
| Increase (decrease) in cash and cash equivalents            | (4,945)               | —             | 59,999                            | 38                                    | 55,092              |
| Cash and cash equivalents, beginning of period              | 6,714                 | —             | 61                                | 44                                    | 6,819               |
| Cash and cash equivalents, end of period                    | <u>\$ 1,769</u>       | <u>\$ —</u>   | <u>\$ 60,060</u>                  | <u>\$ 82</u>                          | <u>\$ 61,911</u>    |

**Condensed Consolidating Statements of Cash Flows**  
**Nine Months Ended September 30, 2009**  
**(in thousands)**

|   | <u>Parent Company</u> | <u>Issuer</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Consolidated</u> |
|---|-----------------------|---------------|-----------------------------------|---------------------------------------|---------------------|
| Cash provided by (used in) operating activities             | \$ (67,736)           | \$ (15,319)   | \$ 120,076                        | \$ 69,695                             | \$ 106,716          |
| Investing Activities  |                       |               |                                   |                                       |                     |
| Capital expenditures  | —                     | —             | (86,665)                          | (20,101)                              | (106,766)           |
| Change in receivable from Arch Coal, Inc                    | 24,372                | —             | —                                 | (2,612)                               | 21,760              |
| Proceeds from dispositions of property, plant and equipment | —                     | —             | 55                                | 25                                    | 80                  |
| Additions to prepaid royalties                              | —                     | —             | (2,209)                           | (200)                                 | (2,409)             |
| Reimbursement of deposits on equipment                      | —                     | —             | 3,209                             | —                                     | 3,209               |
| Cash provided by (used in) investing activities             | 24,372                | —             | (85,610)                          | (22,888)                              | (84,126)            |
| Financing Activities  |                       |               |                                   |                                       |                     |
| Net payments on commercial paper                            | (22,059)              | —             | —                                 | —                                     | (22,059)            |
| Debt financing costs  | (125)                 | (15)          | —                                 | —                                     | (140)               |
| Transactions with affiliates, net                           | 66,022                | 15,334        | (34,491)                          | (46,865)                              | —                   |
| Cash provided by (used in) financing activities             | 43,838                | 15,319        | (34,491)                          | (46,865)                              | (22,199)            |
| Increase (decrease) in cash and cash equivalents            | 474                   | —             | (25)                              | (58)                                  | 391                 |
| Cash and cash equivalents, beginning of period              | 2,690                 | —             | 84                                | 77                                    | 2,851               |
| Cash and cash equivalents, end of period                    | <u>\$ 3,164</u>       | <u>\$ —</u>   | <u>\$ 59</u>                      | <u>\$ 19</u>                          | <u>\$ 3,242</u>     |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

*This document contains "forward-looking statements" — that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance, and often contain words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," or "will." Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties arise from changes in the demand for our coal by the domestic electric generation industry; from legislation and regulations relating to the Clean Air Act and other environmental initiatives; from regulations relating to mine safety; from operational, geological, permit, labor and weather-related factors; from fluctuations in the amount of cash we generate from operations; from future integration of acquired businesses; and from numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive or regulatory nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law. For a description of some of the risks and uncertainties that may affect our future results, see "Risk Factors" under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.*

### Overview

We are a subsidiary of Arch Coal, Inc., one of the largest coal producers in the United States. We sell substantially all of our coal to power plants and industrial facilities. Our two reportable business segments are based on the low-sulfur U.S. coal producing regions in which we operate — the Powder River Basin and the Western Bituminous region. These geographically distinct areas are characterized by geology, coal transportation routes to consumers, regulatory environments and coal quality. These regional similarities have caused market and contract pricing environments to develop by coal region and form the basis for the segmentation of our operations.

The Powder River Basin is located in northeastern Wyoming and southeastern Montana. The coal we mine from surface operations in this region is very low in sulfur content and has a low heat value compared to the other region in which we operate. The price of Powder River Basin coal is generally less than that of coal produced in other regions because Powder River Basin coal exists in greater abundance, is easier to mine and thus has a lower cost of production. In addition, Powder River Basin coal is generally lower in heat content, which requires some electric power generation facilities to blend it with higher Btu coal or retrofit some existing coal plants to accommodate lower Btu coal. The Western Bituminous region includes western Colorado, eastern Utah and southern Wyoming. Coal we mine from underground and surface mines in this region typically is low in sulfur content and varies in heat content.

Growth in domestic and global coal demand combined with declining domestic coal production have positively impacted coal markets during 2010. Year-to-date U.S. power generation increased approximately 4% through the third week of October, in response to improving economic conditions, as well as favorable weather trends across most regions of the U.S. We estimate that U.S. steam coal consumption grew by 6.5% through September 2010, driven by the increase in power generation as well as improving industrial demand. We expect that 2010 U.S. coal exports will improve over 2009 levels, linked primarily to increased demand for metallurgical coal.

Conversely, U.S. coal production has declined more than 6 million tons through the first nine months of 2010, according to data released by MSHA. We expect supply pressures in the Eastern U.S., driven by the crossover of high quality steam coal into metallurgical markets and declining supply, to create growth potential for other coal basins, particularly the Powder River Basin. Coal production in the Powder River Basin increased 2 million tons through September 30, 2010, and forward prices for Powder River Basin coal have improved since the beginning of the year.

We temporarily suspended production at our Dugout Canyon mine in Carbon County, Utah, on April 29, 2010 after an increase in carbon monoxide levels resulted from a heating event in a previously mined area. After permanently sealing the area, we resumed full coal production on May 21, 2010. On June 22, 2010, an ignition event at our longwall resulted in a second evacuation of all underground employees at the mine. All employees were safely evacuated in both events. The resumption of mining required us to render the mine's atmosphere inert, ventilate the longwall area, determine the cause of the ignition, implement preventive measures, and secure an MSHA-approved longwall ventilation plan. We restarted the longwall system on September 9, 2010, and resumed production at normalized levels by the end of September. As a result of the outages in the second and third quarters, the Dugout Canyon mine incurred a loss of \$10.4 million for the three months ended September 30, 2010, and \$28.9 million for the nine months ended September 30, 2010. We have provided additional information about the performance of our operating segments under the heading "Operating segment results".

**Results of Operations****Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009**

*Summary.* Our improved results during the third quarter of 2010, when compared to the third quarter of 2009, were influenced primarily by higher operating margins stemming primarily from the contribution of the Jacobs Ranch mining complex to us from Arch Coal on October 1, 2009.

*Revenues.* The following table summarizes information about coal sales for the three months ended September 30, 2010 and compares it with the information for the three months ended September 30, 2009:

|                                     | <u>Three Months Ended September 30</u>                      |             | <u>Increase (Decrease)</u> |          |
|-------------------------------------|---|-------------|----------------------------|----------|
|                                     | <u>2010</u>   | <u>2009</u> | <u>Amount</u>              | <u>%</u> |
|                                     | (Amounts in thousands, except per ton data and percentages) |             |                            |          |
| Coal sales                          | \$ 550,198  | \$ 390,313  | \$ 159,885                 | 41.0%    |
| Tons sold                           | 38,786  | 24,703      | 14,083                     | 57.0%    |
| Coal sales realization per ton sold | \$ 14.18  | \$ 15.80    | \$ (1.62)                  | (10.3)%  |

Coal sales increased in the third quarter of 2010 from the third quarter of 2009, primarily due to the contribution of the Jacobs Ranch mining complex to us from Arch Coal in the fourth quarter of 2009, although improving demand for Powder River Basin coal also had an impact on sales volumes. Our coal sales realizations per ton were lower in the 2010 quarter, primarily due to the impact on our average selling price of the higher Powder River Basin volumes. We have provided more information about the tons sold and the coal sales realizations per ton by operating segment under the heading "Operating segment results".

*Costs, expenses and other.* The following table summarizes costs, expenses and other components of operating income for the three months ended September 30, 2010 and compares them with the information for the three months ended September 30, 2009:

|   | <u>Three Months Ended September 30</u>     |                   | <u>Increase (Decrease)</u> |                |
|---|--|-------------------|----------------------------|----------------|
|   | <u>2010</u>                                | <u>2009</u>       | <u>\$</u>                  | <u>%</u>       |
|   | (Amounts in thousands, except percentages) |                   |                            |                |
| Cost of coal sales                            | \$ 445,814                                 | \$ 323,973        | \$ (121,841)               | (37.6)%        |
| Depreciation, depletion and amortization      | 39,756                                     | 38,290            | (1,466)                    | (3.8)          |
| Amortization of acquired sales contracts, net | 10,038                                     | 78                | (9,960)                    | N/A            |
| Selling, general and administrative expenses  | 8,172                                      | 12,654            | 4,482                      | 35.4           |
| Other operating income, net                   | (1,093)                                    | (3,492)           | (2,399)                    | (68.7)         |
|   | <u>\$ 502,687</u>                          | <u>\$ 371,503</u> | <u>\$ (131,184)</u>        | <u>(35.3)%</u> |

*Cost of coal sales.* Our cost of coal sales increased in the third quarter of 2010 from the third quarter of 2009 primarily due to the higher sales volumes discussed above, which was partially offset by the impact of a lower average cost per ton sold, resulting primarily from the impact of the increased Powder River Basin volumes, as well as lower per-ton production costs in the Powder River Basin. We have provided more information about our operating segments under the heading "Operating segment results".

*Depreciation, depletion and amortization and amortization of acquired sales contracts, net.* When compared with the third quarter of 2009, higher depreciation and amortization costs in the third quarter of 2010 resulted primarily from the impact of the contribution of the Jacobs Ranch mining complex to us in the fourth quarter of 2009.

*Selling, general and administrative expenses.* Selling, general and administrative expenses represent expenses allocated to us from Arch Coal. Expenses are allocated based on Arch Coal's best estimates of proportional or incremental costs, whichever is more representative of costs incurred by Arch Coal on our behalf. Costs charged during the three months ended September 30, 2009 include Arch Coal's year-to-date costs related to the acquisition of the Jacobs Ranch mining complex.

## Table of Contents

*Operating segment results.* The following table shows results by operating segment for the three months ended September 30, 2010 and compares it with information for the three months ended September 30, 2009:

|   | Three Months Ended September 30 |          | Increase (Decrease) |         |
|---|---------------------------------|----------|---------------------|---------|
|   | 2010                            | 2009     | \$                  | %       |
| <i>Powder River Basin</i>               |                                 |          |                     |         |
| Tons sold (in thousands)                | 34,762                          | 20,142   | 14,620              | 72.6%   |
| Coal sales realization per ton sold (1) | \$ 11.79                        | \$ 11.84 | \$ (0.05)           | (0.4)%  |
| Operating margin per ton sold (2)       | \$ 1.12                         | \$ 0.53  | \$ 0.59             | 111.3%  |
| <i>Western Bituminous</i>               |                                 |          |                     |         |
| Tons sold (in thousands)                | 4,024                           | 4,561    | (537)               | (11.8)% |
| Coal sales realization per ton sold (1) | \$ 30.66                        | \$ 29.07 | \$ 1.59             | 5.5%    |
| Operating margin per ton sold (2)       | \$ 3.70                         | \$ 3.66  | \$ 0.04             | 1.1%    |

(1) Coal sales prices per ton exclude certain transportation costs that we pass through to our customers. We use these financial measures because we believe the amounts as adjusted better represent the coal sales prices we achieved within our operating segments. Since other companies may calculate coal sales prices per ton differently, our calculation may not be comparable to similarly titled measures used by those companies. For the three months ended September 30, 2010, transportation costs per ton were \$0.07 for the Powder River Basin and \$3.64 for the Western Bituminous region. For the three months ended September 30, 2009, transportation costs per ton were \$0.18 for the Powder River Basin and \$3.44 for the Western Bituminous region.

(2) Operating margin per ton sold is calculated as coal sales revenues less cost of coal sales and depreciation, depletion and amortization divided by tons sold.

*Powder River Basin* — The increase in sales volume in the Powder River Basin in the third quarter of 2010 when compared with the third quarter of 2009 resulted primarily from the acquisition of the Jacobs Ranch mining operations on October 1, 2009, although improving demand for Powder River Basin coal also had an impact on sales volumes. Sales prices decreased during the third quarter of 2010 when compared with the third quarter of 2009 primarily reflecting the roll-off of contracts committed when market conditions were more favorable, as well as the effect of lower sulphur dioxide emission allowance pricing. On a per-ton basis, operating margins in the third quarter of 2010 increased from the third quarter of 2009 due to a decrease in per-ton costs, which offset the impact of the lower per-ton sales prices. The decrease in per-ton costs resulted primarily from efficiencies achieved from combining the acquired Jacobs Ranch mining operations with our existing Black Thunder operations, increased base production volumes and a decrease in hedged diesel fuel costs.

*Western Bituminous* — In the Western Bituminous region, sales volumes in the third quarter of 2010 decreased when compared to the depressed sales volume levels in the third quarter of 2009 due primarily to the production outage at the Dugout Canyon mine for a substantial part of the quarter. Sales volumes in the third quarter of 2009 were affected by weaker market conditions that had an impact on our ability to market coal with a high ash content, which resulted from geologic conditions at our West Elk mine, and the decision to reduce production accordingly. We have recently completed construction of a preparation plant at the West Elk mine to address quality issues that could result from sandstone intrusions similar to those we encountered previously. Despite the detrimental impact in 2009 on our per-ton realizations of selling coal with a higher ash content, our realizations improved only slightly in 2010, due to ongoing soft steam coal market conditions in the region. Slightly higher per-ton operating margins in the third quarter of 2010 were the result of the higher realizations but were mostly offset by the impact of the production outage at the Dugout Canyon mine.

*Net interest expense.* The following table summarizes our net interest expense for the three months ended September 30, 2010 and compares it with the information for the three months ended September 30, 2009:

|                  | Three Months Ended September 30 |  | Increase in Net Income |       |
|------------------|---------------------------------|--|------------------------|-------|
|                  | 2010                            | 2009                                       | \$                     | %     |
|                  |                                 |  |                        |       |
|                  |                                 | (Amounts in thousands, except percentages) |                        |       |
| Interest expense | \$ (15,892)                     | \$ (16,915)                                | \$ 1,023               | 6.0%  |
| Interest income  | 13,714                          | 11,318                                     | 2,396                  | 21.2  |
|                  | \$ (2,178)                      | \$ (5,597)                                 | \$ 3,419               | 61.1% |

On September 8, 2010, we redeemed \$500.0 million aggregate principal amount of the outstanding 6.75% senior notes at a redemption price of 101.125%. We funded this redemption with cash transferred from Arch Coal in the form of a loan of \$225.0 million and a repayment of a portion of the balance receivable from Arch Coal. See further discussion under the heading “Liquidity and Capital Resources”.

## [Table of Contents](#)

Interest expense consists primarily of interest on our 6.75% senior notes, the discount on trade accounts receivable sold to Arch Coal under Arch Coal's accounts receivable securitization program, interest on our commercial paper, and interest on the \$225.0 million loan from Arch Coal.

Our cash transactions are managed by Arch Coal. Cash paid to or from us that is not considered a distribution, a contribution, or a loan is recorded through a receivable from Arch Coal. The receivable balance earns interest from Arch Coal at the prime interest rate. The increase in interest income during the third quarter of 2010 when compared to the third quarter of 2009 resulted primarily from higher average receivable balance during 2010.

*Other non-operating expense.* The following table summarizes our other non-operating expense for the three months ended September 30, 2010 and compares it with the information for the three months ended September 30, 2009:

|                                      | <u>Three Months Ended September 30</u> |             | <u>Decrease in Net Income</u> |          |
|--------------------------------------|--|-------------|-------------------------------|----------|
|                                      | <u>2010</u>                            | <u>2009</u> | <u>\$</u>                     | <u>%</u> |
| Loss on early extinguishment of debt | \$ (6,776)                             | \$ —        | \$ (6,776)                    | (100)%   |

Amounts reported as non-operating consist of income or expense resulting from our financing activities, other than interest costs. The loss on early extinguishment of debt relates to the redemption of \$500 million in principal amount of the 6.75% senior notes. The loss includes the payment of \$5.6 million of redemption premium and the write-off of \$3.3 million of unamortized debt financing cost, partially offset by the write-off of \$2.1 million of the original issue premium.

### **Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009**

*Summary.* Our results during the nine months ended September 30, 2010, when compared to the nine months ended September 30, 2009, were influenced primarily by higher operating margins stemming from the contribution of the Jacobs Ranch mining complex to us on October 1, 2009 and improved geologic conditions at our West Elk mine in the Western Bituminous region.

*Revenues.* The following table summarizes information about coal sales for the nine months ended September 30, 2010 and compares it with the information for the nine months ended September 30, 2009:

|                                     | <u>Nine Months Ended September 30</u>                       |              | <u>Increase (Decrease)</u> |          |
|-------------------------------------|---|--------------|----------------------------|----------|
|                                     | <u>2010</u>   | <u>2009</u>  | <u>Amount</u>              | <u>%</u> |
|                                     | (Amounts in thousands, except per ton data and percentages) |              |                            |          |
| Coal sales                          | \$ 1,504,523  | \$ 1,167,369 | \$ 337,154                 | 28.9%    |
| Tons sold                           | 106,516   | 74,608       | 31,908                     | 42.8%    |
| Coal sales realization per ton sold | \$ 14.12  | \$ 15.65     | \$ (1.53)                  | (9.8)%   |

Coal sales increased in the nine months ended September 30, 2010 from the nine months ended September 30, 2009, primarily due to the contribution of the Jacobs Ranch mining complex to us in the fourth quarter of 2009. Our coal sales realizations per ton were lower in the nine months ended September 30, 2010 due to lower realizations per ton in our Powder River Basin segment, as well as the impact on our average selling price of the higher Powder River Basin volumes. We have provided more information about the tons sold and the coal sales realizations per ton by operating segment under the heading "Operating segment results".

*Costs, expenses and other.* The following table summarizes costs, expenses and other components of operating income for the nine months ended September 30, 2010 and compares them with the information for the nine months ended September 30, 2009:

|   | <u>Nine Months Ended September 30</u>      |                  | <u>Increase (Decrease)</u> |                |
|---|--|------------------|----------------------------|----------------|
|   | <u>2010</u>                                | <u>2009</u>      | <u>\$</u>                  | <u>%</u>       |
|   | (Amounts in thousands, except percentages) |                  |                            |                |
| Cost of coal sales                            | 1,239,893                                  | 1,005,640        | \$ (234,253)               | (23.3)%        |
| Depreciation, depletion and amortization      | 123,883                                    | 113,058          | (10,825)                   | (9.6)          |
| Amortization of acquired sales contracts, net | 26,005                                     | (92)             | (26,097)                   | N/A            |
| Selling, general and administrative expenses  | 27,421                                     | 29,722           | 2,301                      | 7.7            |
| Other operating income, net                   | (3,597)                                    | (5,363)          | (1,766)                    | (32.9)         |
|   | <u>1,413,605</u>                           | <u>1,142,965</u> | <u>\$ (270,640)</u>        | <u>(23.7)%</u> |

## [Table of Contents](#)

*Cost of coal sales.* Our cost of coal sales increased in the nine months ended September 30, 2010 from the nine months ended September 30, 2009 primarily due to the higher sales volumes discussed above, which was partially offset by the impact of a lower average cost per ton sold, resulting from the impact of the increased Powder River Basin volumes, as well as lower per-ton production costs. We have provided more information about our operating segments under the heading “Operating segment results”.

*Depreciation, depletion and amortization and amortization of acquired sales contracts, net.* When compared with the nine month period ended September 30, 2010, higher depreciation and amortization costs in the nine months ended September 30, 2010 resulted primarily from the impact of the contribution of the Jacobs Ranch mining complex to us in the fourth quarter of 2009.

*Selling, general and administrative expenses.* Selling, general and administrative expenses represent expenses allocated to us from Arch Coal. Expenses are allocated based on Arch Coal’s best estimates of proportional or incremental costs, whichever is more representative of costs incurred by Arch Coal on our behalf. Costs allocated during the nine months ended September 30, 2009 include acquisition costs related to Arch Coal’s purchase of the Jacobs Ranch mining complex.

*Operating segment results.* The following table shows results by operating segment for the nine months ended September 30, 2010 and compares it with information for the nine months ended September 30, 2009:

|   | <u>Nine Months Ended September 30</u> |             | <u>Increase (Decrease)</u> |          |
|---|---------------------------------------|-------------|----------------------------|----------|
|   | <u>2010</u>                           | <u>2009</u> | <u>\$</u>                  | <u>%</u> |
| <i>Powder River Basin</i>               |                                       |             |                            |          |
| Tons sold (in thousands)                | 94,370                                | 62,675      | 31,695                     | 50.6%    |
| Coal sales realization per ton sold (3) | \$ 11.59                              | \$ 12.39    | \$ (0.80)                  | (6.5)%   |
| Operating margin per ton sold (4)       | \$ 0.76                               | \$ 0.70     | \$ 0.06                    | 8.6%     |
| <i>Western Bituminous</i>               |                                       |             |                            |          |
| Tons sold (in thousands)                | 12,146                                | 11,933      | 213                        | 1.8%     |
| Coal sales realization per ton sold (3) | \$ 29.90                              | \$ 29.00    | \$ 0.90                    | 3.1%     |
| Operating margin per ton sold (4)       | \$ 3.13                               | \$ 0.28     | \$ 2.85                    | N/A      |

(3) Coal sales prices per ton exclude certain transportation costs that we pass through to our customers. We use these financial measures because we believe the amounts as adjusted better represent the coal sales prices we achieved within our operating segments. Since other companies may calculate coal sales prices per ton differently, our calculation may not be comparable to similarly titled measures used by those companies. For the nine months ended September 30, 2010, transportation costs per ton were \$0.08 for the Powder River Basin and \$3.27 for the Western Bituminous region. For the nine months ended September 30, 2009, transportation costs per ton were \$0.15 for the Powder River Basin and \$2.95 for the Western Bituminous region.

(4) Operating margin per ton sold is calculated as coal sales revenues less cost of coal sales and depreciation, depletion and amortization divided by tons sold.

*Powder River Basin* — The increase in sales volume in the Powder River Basin in 2010 when compared with 2009 resulted from the acquisition of the Jacobs Ranch mining operations on October 1, 2009, although improving demand for Powder River Basin coal in the third quarter of 2010 also had an impact on sales volumes. Decreases in sales prices during 2010 when compared with 2009 primarily reflect the roll-off of contracts committed when market conditions were more favorable. On a per-ton basis, operating margins in 2010 increased slightly, as the effect of lower sales prices was more than offset by a decrease in per-ton costs. The decrease in per-ton costs resulted from efficiencies achieved from combining the acquired Jacobs Ranch mining operations with our existing Black Thunder operations, as well as a decrease in hedged diesel fuel costs.

*Western Bituminous* — In the Western Bituminous region, despite a soft steam coal market in the region and the two outages at the Dugout Canyon mine in 2010, sales volumes increased slightly compared to 2009. Sales volumes in 2009 were affected by weaker market conditions that had an impact on our ability to market coal with a high ash content, which resulted from geologic conditions at our West Elk mine, and the decision to reduce production accordingly. We have recently completed construction of a preparation plant at the West Elk mine to address quality issues that could result from sandstone intrusions similar to those we encountered previously. Despite the detrimental impact in 2009 on our per-ton realizations of selling coal with a higher ash content, our realizations increased only slightly in 2010, due to the soft steam coal market in the region and an unfavorable mix of customer contracts. Effective cost control in the region resulted in the higher per-ton operating margins in 2010, partially offset by the impact of the two outages at the Dugout Canyon mine in 2010.

## [Table of Contents](#)

*Net interest expense.* The following table summarizes our net interest expense for the nine months ended September 30, 2010 and compares it with the information for the nine months ended September 30, 2009:

|                  | <u>Nine Months Ended September 30</u> |                    | <u>Increase (Decrease) in Net Income</u> |              |
|------------------|---------------------------------------|--------------------|--|--------------|
|                  | <u>2010</u>                           | <u>2009</u>        | <u>\$</u>                                | <u>%</u>     |
| Interest expense | \$ (50,966)                           | \$ (50,264)        | \$ (702)                                 | (1.4)%       |
| Interest income  | 39,732                                | 34,684             | 5,048                                    | 14.6%        |
|                  | <u>\$ (11,234)</u>                    | <u>\$ (15,580)</u> | <u>\$ 4,346</u>                          | <u>27.9%</u> |

Interest expense consists primarily of interest on our 6.75% senior notes, the discount on trade accounts receivable sold to Arch Coal under Arch Coal's accounts receivable securitization program, interest on our commercial paper, and interest on the \$225.0 million loan from Arch Coal.

Our cash transactions are managed by Arch Coal. Cash paid to or from us that is not considered a distribution, a contribution, or a loan is recorded through a receivable from Arch Coal. The receivable balance earns interest from Arch Coal at the prime interest rate. The increase in interest income during 2010 when compared to 2009 resulted primarily from higher average receivable balance during 2010.

*Other non-operating expense.* The following table summarizes our other non-operating expense for the nine months ended September 30, 2010 and compares it with the information for the nine months ended September 30, 2009:

|                                      | <u>Nine Months Ended September 30</u> |             | <u>Decrease in Net Income</u> |          |
|--------------------------------------|---------------------------------------|-------------|-------------------------------|----------|
|                                      | <u>2010</u>                           | <u>2009</u> | <u>\$</u>                     | <u>%</u> |
| Loss on early extinguishment of debt | \$ (6,776)                            | \$ —        | \$ (6,776)                    | (100)%   |

Amounts reported as non-operating consist of income or expense resulting from our financing activities, other than interest costs. The loss on early extinguishment of debt relates to the redemption of \$500 million in principal amount of the 6.75% senior notes. The loss includes the payment of \$5.6 million of redemption premium and the write-off of \$3.2 million of unamortized debt financing costs, partially offset by the write-off of \$2.1 million of the original issue premium.

## **Liquidity and Capital Resources**

### *Liquidity and capital resources*

Our primary sources of cash are sales of our coal production to customers, borrowings under our commercial paper program and debt related to significant transactions. Excluding any significant business acquisitions, we generally satisfy our working capital requirements and fund capital expenditures and debt-service obligations with cash generated from operations, and if necessary, from Arch Coal. Arch Coal manages our cash transactions. Cash paid to or from us that is not considered a distribution or a contribution is recorded in an Arch Coal receivable account. The receivable balance earns interest from Arch Coal at the prime interest rate. We are also party to Arch Coal's accounts receivable securitization program. Under the program, we sell our receivables to a subsidiary of Arch Coal without recourse at a discount based on the prime rate and days sales outstanding.

We believe that cash generated from operations will be sufficient to meet working capital requirements, anticipated capital expenditures and scheduled debt payments for at least the next several years. We manage our exposure to changing commodity prices for our long-term coal contract portfolio through the use of long-term coal supply agreements. We enter into fixed price, fixed volume supply contracts with terms generally greater than one year with customers with whom we have historically had limited collection issues. Our ability to satisfy debt service obligations, to fund planned capital expenditures and to make acquisitions will depend upon our future operating performance, which will be affected by prevailing economic conditions in the coal industry and financial, business and other factors, some of which are beyond our control.

On September 8, 2010, we redeemed \$500.0 million aggregate principal amount of our outstanding 6.75% senior notes at a redemption price of 101.125%. We funded this redemption with cash transferred from Arch Coal in the form of a loan of \$225.0 million and a repayment of a portion of the balance receivable from Arch Coal.



## Table of Contents

Arch Coal made the loan pursuant to an intercompany credit agreement. Under the intercompany credit agreement, we may borrow up to \$675.0 million through July 1, 2013, or such later date as designated by Arch Coal. Interest on loans outstanding under the agreement is calculated at a per annum rate equal to the three month LIBOR rate plus 200 or 250 basis points, depending on a leverage ratio, as defined in the agreement, at the date the rate is determined. Interest is due on any outstanding loans on the first day of each calendar quarter. We may repay the balance of the loan at any time, in whole or in part, without penalty.

Under Arch Coal's accounts receivable securitization program, we sold \$442.3 million of trade accounts receivable to Arch Coal during the third quarter of 2010, at a total discount of \$1.0 million. During the third quarter of 2009, we sold \$315.8 million of trade accounts receivable to Arch Coal, at a total discount of \$0.7 million. During the nine months ended September 30, 2010, we sold \$1.3 billion of trade accounts receivable to Arch Coal, at a total discount of \$3.0 million. During the nine month period ended September 30, 2009, we sold \$1.0 billion of trade accounts receivable to Arch Coal, at a total discount of \$2.5 million.

On March 25, 2010, we entered into an amendment to our commercial paper program which decreased the maximum aggregate principal amount of the program to \$75 million from \$100 million. The commercial paper program is supported by a line of credit that expires on April 30, 2011. We had commercial paper outstanding of \$55.7 million at September 30, 2010 and \$49.5 million at December 31, 2009. Our commercial paper placement program provides short-term financing at rates that are generally lower than the rates available under our revolving credit facility.

Our subsidiary, Arch Western Finance LLC, has outstanding an aggregate principal amount of \$450.0 million of 6.75% senior notes due on July 1, 2013, after the redemption discussed previously. The notes are guaranteed by AWR and certain of its subsidiaries and are secured by an intercompany note from Arch Coal to AWR. The indenture under which the notes were issued contains certain restrictive covenants that limit AWR's ability to, among other things, incur additional debt, sell or transfer assets and make certain investments. The notes may be redeemed as follows: at 101.125% of par for notes redeemed between July 1, 2010 and June 30, 2011, and 100% for notes redeemed on or after July 1, 2011.

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

|                             | <u>Nine Months Ended September 30</u> |             |
|-----------------------------|---------------------------------------|-------------|
|                             | <u>2010</u>                           | <u>2009</u> |
|                             | <u>(in thousands)</u>                 |             |
| Cash provided by (used in): |                                       |             |
| Operating activities        | \$ 323,160                            | \$ 106,716  |
| Investing activities        | 5,794                                 | (84,126)    |
| Financing activities        | (273,862)                             | (22,199)    |

Cash provided by operating activities increased in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 as a result of our increased profits during the year, driven primarily by higher sales volumes, as well as working capital changes.

Cash provided by investing activities for the nine months ended September 30, 2010 was \$5.8 million, compared to cash used in investing activities of \$84.1 million in the nine month period ended September 30, 2009, primarily due to an increase in amounts repaid on the intercompany note by Arch Coal, related to the redemption of the \$6.75% senior notes discussed previously, and due to a decrease in capital expenditures.

Cash used in financing activities was \$273.9 million during the nine months ended September 30, 2010, \$251.7 million more than was used during the nine months ended September 30, 2009. As previously discussed, Arch Coal made a loan to us in the amount of \$225.0 million, which proceeds, along with the repayment of the intercompany note mentioned above, were used to fund the redemption on September 8, 2010 of \$500.0 million aggregate principal amount of our outstanding 6.75% senior notes due in 2013 at a redemption price of 101.125%. In 2009, we repaid a net \$22.1 million under our commercial paper program. As a result of the poor credit markets, we had been unable to issue commercial paper up to the maximum amount allowed under the program. We have since reduced the maximum allowed under the program to \$75 million from \$100 million, as discussed previously, and during the nine months ended of 2010, we increased the amount of commercial paper issued by \$6.3 million to \$55.7 million.

### **Critical Accounting Policies**

For a description of our critical accounting policies, see "Critical Accounting Policies" under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no significant changes to our critical accounting policies during the nine months ended September 30, 2010.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We manage our commodity price risk for our long-term coal contract portfolio through the use of long-term coal supply agreements. The majority of our tonnage is sold under long-term contracts. We are also exposed to price risk related to the value of sulfur dioxide emission allowances that are a component of quality adjustment provisions in many of our coal supply contracts. We manage this risk through the use of long-term coal supply agreements.

We are also exposed to the risk of fluctuations in cash flows related to our purchase of diesel fuel. We use approximately 45 to 50 million gallons of diesel fuel annually in our operations. Arch Coal enters into heating oil swaps and options to reduce volatility in the price of diesel fuel for our operations. The swap agreements essentially fix the price paid for diesel fuel by requiring us to pay a fixed heating oil price and receive a floating heating oil price. The call options protect against increases in diesel fuel by granting us the right to participate in increases in heating oil prices. The cash settlements related to these swaps and options are allocated to us through the Arch Coal intercompany account.

We are exposed to market risk associated with interest rates due to our existing level of indebtedness. At September 30, 2010, with the exception of our outstanding commercial paper, all of our outstanding debt bore interest at fixed rates.

**Item 4. Controls and Procedures.**

We performed an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010. Based on that evaluation, our management, including our chief executive officer and chief financial officer, concluded that the disclosure controls and procedures were effective as of such date. There were no changes in internal control over financial reporting that occurred during our quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are involved in various claims and legal actions in the ordinary course of business. In the opinion of management, the outcome of such ordinary course of business proceedings and litigation currently pending will not have a material adverse effect on our results of operations or financial results.

**Item 1A. Risk Factors.**

Our business inherently involves certain risks and uncertainties. The risks and uncertainties described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Should one or more of any of these risks materialize, our business, financial condition, results of operations or liquidity could be materially adversely affected.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None

**Item 3. Defaults Upon Senior Securities.**

None

**Item 4. Reserved**

**Item 5. Other Information.**

We believe that our operations are some of the safest coal producers in the world. Safety is a core value at our parent company, Arch Coal, and at each of its subsidiary operations. We have in place a comprehensive safety program that includes extensive health & safety training for all employees, site inspections, emergency response preparedness, crisis

## [Table of Contents](#)

communications training, incident investigation, regulatory compliance training and process auditing, as well as an open dialogue between all levels of employees. The goals of our processes are to eliminate exposure to hazards in the workplace, ensure that we comply with all mine safety regulations, and support regulatory and industry efforts to improve the health and safety of our employees along with the industry as a whole.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, each operator of a coal or other mine is required to include certain mine safety results in its periodic reports filed with the Securities and Exchange Commission. The operation of our mines is subject to regulation by the federal Mine Safety and Health Administration (“MSHA”) under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”). Below we present the following items regarding certain mining safety and health matters, broken down by mining complex owned and operated by Arch Western Resources, LLC or our subsidiaries, for the three-month period ended September 30, 2010:

- *Section 104 Citations*: Total number of violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under section 104 of the Mine Act for which we have received a citation from MSHA;
- *Section 104(b) Orders*: Total number of orders issued under section 104(b) of the Mine Act;
- *Section 104(d) Citations/Orders*: Total number of citations and orders for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under Section 104(d) of the Mine Act;
- *Section 107(a) Orders*: Total number of imminent danger orders issued under section 107(a) of the Mine Act; and
- *Total Dollar Value of Proposed MSHA Assessments*: Total dollar value of proposed assessments from MSHA under the Mine Act.

| <u>Mining complex(1)</u>   | <u>Section 104 Citations</u> | <u>Section 104(b) Orders</u> | <u>Section 104(d) Citations/Orders</u> | <u>Section 107(a) Orders</u> | <u>Total Dollar Value of Proposed MSHA Assessments (in thousands)(2)</u> |
|----------------------------|------------------------------|------------------------------|--|------------------------------|--|
| <b>Power River Basin:</b>  |                              |                              |  |                              |  |
| Black Thunder              | 1                            | —                            | —                                      | —                            | \$ 2   |
| Coal Creek                 | —                            | —                            | —                                      | —                            | \$ —   |
| <b>Western Bituminous:</b> |                              |                              |  |                              |  |
| Arch of Wyoming            | —                            | —                            | —                                      | —                            | \$ 1   |
| Dugout Canyon              | 8                            | —                            | —                                      | —                            | \$ 2   |
| Skyline                    | 14                           | —                            | —                                      | —                            | \$ 14  |
| Sufco                      | 5                            | —                            | 4                                      | 1                            | \$ 1   |
| West Elk                   | 22                           | —                            | —                                      | —                            | \$ 78  |

(1) MSHA assigns an identification number to each coal mine and may or may not assign separate identification numbers to related facilities such as preparation plants. We are providing the information in this table by mining complex rather than MSHA identification number because we believe this format will be more useful to investors than providing information based on MSHA identification numbers. For descriptions of each of these mining operations, please refer to the descriptions under Item 1. Business, in Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

(2) Amounts included under the heading “Total Dollar Value of Proposed MSHA Assessments” are the total dollar amounts for proposed assessments received from MSHA on or before October 25, 2010, for citations and orders occurring during the three-month period ended September 30, 2010.

For the three-month period ended September 30, 2010, none of our mining complexes received written notice from MSHA of (i) a flagrant violation under section 110(b)(2) of the Mine Act; (ii) a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) of the Mine Act; or (iii) the potential to have such a pattern. For the three-month period ended September 30, 2010, we experienced no fatalities.

As of September 30, 2010, we have a total of fifty matters pending before the Federal Mine Safety and Health Review Commission. This includes legal actions that were initiated prior to the three-month period ended September 30, 2010 and

## [Table of Contents](#)

which do not necessarily relate to the citations, orders or proposed assessments issued by MSHA during such three month period.

In evaluating the above information regarding mine safety and health, investors should take into account factors such as: (i) the number of citations and orders will vary depending on the size of a coal mine, (ii) the number of citations issued will vary from inspector to inspector and mine to mine, and (iii) citations and orders can be contested and appealed, and during that process are often reduced in severity and amount, and are sometimes dismissed.

### **Item 6. Exhibits.**

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q:

| Exhibit | Description  |
|---------|--|
| 31.1    | Rule 13a-14(a)/15d-14(a) Certification of Paul A. Lang.    |
| 31.2    | Rule 13a-14(a)/15d-14(a) Certification of John T. Drexler. |
| 32.1    | Section 1350 Certification of Paul A. Lang.                |
| 32.2    | Section 1350 Certification of John T. Drexler.             |

**Signatures**

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

Arch Western Resources, LLC

By: /s/ John T. Drexler

John T. Drexler

Vice President

November 15, 2010

### Certification

I, Paul A. Lang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arch Western Resources, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Paul A. Lang

Paul A. Lang

President

Date: November 15, 2010

### Certification

I, John T. Drexler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arch Western Resources, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John T. Drexler

John T. Drexler

Vice President

Date: November 15, 2010

**Certification of Periodic Financial Reports**

I, Paul A. Lang, President of Arch Western Resources, LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Arch Western Resources, LLC.

/s/ Paul A. Lang

Paul A. Lang

President

Date: November 15, 2010



**Certification of Periodic Financial Reports**

I, John T. Drexler, Vice President of Arch Western Resources, LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Arch Western Resources, LLC.

/s/ John T. Drexler

John T. Drexler

Vice President

Date: November 15, 2010