

Edgar Filing: ARCH COAL INC - Form 10-K405

ARCH COAL INC
Form 10-K405
March 16, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 1(d)
of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2000

or

Transition report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number: 1-13105

ARCH COAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

43-0921172
(IRS Employer
Identification No.)

CityPlace One, Suite 300, St. Louis,
MO
(Address of principal executive
offices)

63141
(Zip Code)

(314) 994-2700

(Registrant's telephone number, including area code)

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

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

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

None

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the

Edgar Filing: ARCH COAL INC - Form 10-K405

registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE:

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

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

TABLE OF CONTENTS

	Page

PART I	
Item 1. Business.....	1
Item 2. Properties.....	10
Item 3. Legal Proceedings.....	12
Item 4. Submission of Matters to a Vote of Security Holders.....	12
PART II	
Item 5. Market For Registrant's Common Equity and Related Stockholder Matters.....	12
Item 6. Selected Financial Data.....	12
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	13
Item 7A. Quantitative and Qualitative Disclosures about Market Risk.....	13
Item 8. Financial Statements and Supplementary Data.....	13
Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.....	13
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	13
Item 11. Executive Compensation.....	13

Edgar Filing: ARCH COAL INC - Form 10-K405

Item 12. Security Ownership of Certain Beneficial Owners and Management.. 13
Item 13. Certain Relationships and Related Transactions..... 13

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K..... 14

PART I

ITEM 1. BUSINESS

General

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

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

Recent Developments

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

Business Environment

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

Edgar Filing: ARCH COAL INC - Form 10-K405

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

Electricity Generation. Over the past several decades, coal has consistently maintained a 50% to 53% market share over competing energy sources to generate electricity because of its relatively low cost and its availability throughout the United States. On an average, all-in cost per megawatt-hour basis, coal-fired

1

generation is substantially less expensive than electricity generated utilizing natural gas, oil or nuclear power. Hydroelectric power is inexpensive but is limited geographically, and there are few suitable sites for new hydroelectric power dams. Consequently, approximately 91% of the coal produced in the United States in 2000 was sold in the domestic market as a fuel to the electric generation segment. The remainder of the tons were sold as steam coal for industrial and residential purposes, into the export market, and as metallurgical coal. In addition to the relative competitiveness of coal-fired generation plants, coal consumption patterns are also influenced by the demand for electricity, governmental regulation impacting coal production and power generation, technological developments and the location, availability and quality of competing sources of coal, as well as alternative fuels such as natural gas, oil and nuclear and alternative energy sources such as hydroelectric power.

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

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

1990	1995	1999	2000e	2005f	2010f	2015f	2020f
(billion kilowatt hours)							

Edgar Filing: ARCH COAL INC - Form 10-K405

Coal.....	1,590	1,710	1,881	1,956	2,137	2,248	2,298	2,350
Petroleum.....	124	75	108	111	42	27	27	29
Natural Gas.....	378	499	583	629	823	1,157	1,542	1,886
Nuclear.....	577	673	728	752	740	720	639	574
Hydro/Renewable/other.....	356	401	407	377	415	440	451	455
	-----	-----	-----	-----	-----	-----	-----	-----
Total.....	3,025	3,358	3,707	3,825	4,157	4,592	4,957	5,294
	=====	=====	=====	=====	=====	=====	=====	=====

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

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

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

	1980	1985	1990	1995	1998	1999	2000 (e)
	-----	-----	-----	-----	-----	-----	-----
Total Tons (in millions).....	820	884	1,026	1,033	1,118	1,093	1,087
Percent of Total Tons							
East.....	69%	63%	61%	53%	51%	48%	47%
West.....	31	37	39	47	49	52	53
Underground.....	40	40	41	38	37	36	35*
Surface.....	60	60	59	62	63	64	65*
Number of Mines							
Underground.....	1,875	1,695	1,422	977	827	753	713*
Surface.....	1,997	1,660	1,285	1,127	899	870	870*

Edgar Filing: ARCH COAL INC - Form 10-K405

	-----	-----	-----	-----	-----	-----	-----
Total.....	3,872	3,355	2,707	2,104	1,726	1,623	1,583*
Average Number of Mine Employees							
Underground.....	150,328	107,357	84,154	57,879	49,391	43,325	**
Surface.....	74,610	61,924	47,152	32,373	37,866	34,352	**
Average Production per Mine (tons in thousands)							
Underground.....	175	207	298	406	505	516	536*
Surface.....	246	321	469	565	779	810	812*

 * Company estimate.
 ** Data not yet available.

Sales and Marketing

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

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

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

There are some contract terms that differ between a standard "eastern United States" contract and a standard "western United States" contract. In the eastern United States, many customers require that the coal be sampled and weighed at the destination. In the western United States, virtually all samples are taken at the source. More

eastern United States coal is purchased on the spot market. The eastern United States market has more recently been a shorter-term market because of the larger number of smaller mining operations in that region. Western United States contracts sometimes stipulate that some production taxes and coal royalties be reimbursed in full by the buyer rather than as a pricing

Edgar Filing: ARCH COAL INC - Form 10-K405

component within the contract. These items comprise a significant portion of western United States coal pricing.

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

Competition

The coal industry is intensely competitive, primarily as a result of the existence of numerous producers in the coal producing regions in which the Company operates. The Company competes with several major coal producers in the Central Appalachian and Powder River Basin areas. It also competes with a number of smaller producers in those and its other market regions.

4

Operations

As of December 31, 2000, the Company operated a total of 28 mines, all located in the United States. Coal is transported from the Company's mining complexes to customers by means of railroad cars, river barges or trucks, or a combination of these means of transportation. As is customary in the industry, virtually all the Company's coal sales are made F.O.B. mine or loadout, meaning that customers are responsible for the cost of transporting purchased coal to their facilities. The following table provides the location and a summary of information regarding the Company's principal mining complexes and the coal reserves associated with these operations as of December 31, 2000:

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

Edgar Filing: ARCH COAL INC - Form 10-K405

Coal Creek (WY) (/7/)	--	--	--	UP, BN
West Elk (CO) (/8/)	U	--	LW, C	UP
Skyline (UT) (/9/)	U	--	LW, C	UP
SUFCO (UT) (/9/)	U	--	LW, C	UP
Dugout Canyon (UT) (/9/)	U	--	C (/10/)	UP
Arch of Wyoming (WY)	S(2)	--	D, S (/11/)	UP

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

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

5

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

(/1/Reported) for captive operations only.

(/2/The) Company idled its mining operations at the Dal-Tex complex on July 23, 1999 due to a delay in obtaining mining permits resulting from legal action in the U.S. District Court for the Southern District of West

Edgar Filing: ARCH COAL INC - Form 10-K405

Virginia.

- (/3/Utilizes)an 83-cubic-yard dragline and a 51-cubic-yard shovel. A dragline is a large machine used in the surface mining process to remove layers of earth and rock covering coal.
- (/4/Utilizes)a 49-cubic-yard dragline, a 43-cubic-yard shovel, a 22-cubic-yard shovel and a 28-cubic-yard loader at the Ruffner mine.
- (/5/Utilizes)a 118-cubic-yard dragline, two 53-cubic-yard shovels, a 22-cubic-yard hydraulic excavator, three 28-cubic-yard loaders and one 23 cubic yard loader.
- (/6/Utilizes)170-cubic-yard, 130-cubic-yard, 90-cubic-yard and 45-cubic-yard draglines and 53-cubic-yard, 60-cubic-yard and 82-cubic-yard shovels.
- (/7/The)Company idled its mining operations at Coal Creek during the third quarter of 2000 because its cost structure was not competitive in the current market environment.
- (/8/The)Company idled its mining operations at West Elk from January 28, 2000 to July 12, 2000 following the detection of higher-than-normal levels of carbon monoxide in a portion of the mine.
- (/9/Mines)are operated by Canyon Fuel. Canyon Fuel is an equity investment and its financial statements and tons produced are not consolidated into the Company's financial statements and tons produced.
- (/10/Currently)under development; partial production projected to begin in the second quarter of 2001.
- (/11/Utilizes)76-cubic-yard and 64-cubic-yard draglines at Medicine Bow and a 32-cubic-yard dragline at Seminole II.
- (/12/Reflects)the cost of plant and equipment.

6

Transportation

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

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

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

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

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

Edgar Filing: ARCH COAL INC - Form 10-K405

Regulations Affecting Coal Mining

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

Glossary Of Selected Mining Terms

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

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

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

Coal Seam. A bed or stratum of coal.

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

Compliance Coal. Coal which, when burned, emits 1.2 pounds or less of sulfur dioxide per million Btus. Compliance coal requires no mixing with other coals or use of sulfur dioxide reduction technologies by generators of electricity to comply with the requirements of the federal Clean Air Act.

Continuous Mining. One of two major underground mining methods now used in the United States (also see "Longwall Mining"). This process utilizes a machine--a "continuous miner"--that mechanizes the entire

7

coal extraction process. The continuous miner removes or "cuts" the coal from the seam. The loosened coal then falls on a conveyor for removal to a shuttle car or larger conveyor belt system.

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

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

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

Metallurgical Coal. The various grades of coal suitable for distillation

Edgar Filing: ARCH COAL INC - Form 10-K405

into carbon in connection with the manufacture of steel. Also known as "met" coal.

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

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

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

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

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

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

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

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

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

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

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

8

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

Employees

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

Edgar Filing: ARCH COAL INC - Form 10-K405

Executive Officers

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

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

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

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

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

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

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

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

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

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

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

ITEM 2. PROPERTIES

The Company estimates that it owned or controlled, as of December 31, 2000, approximately 3.37 billion tons of proven and probable recoverable reserves, approximately 1.90 billion tons of which were assigned reserves and approximately 1.47 billion tons of which were unassigned reserves. Assigned reserves are recoverable coal reserves that have been designated to be mined

Edgar Filing: ARCH COAL INC - Form 10-K405

by a specific operation. Unassigned reserves are recoverable reserves that have not yet been designated for mining by a specific operation. Recoverable reserves include only saleable coal and do not include coal which would remain unextracted, such as for support pillars, and processing losses, such as washery losses. Reserve estimates are prepared by the Company's engineers and geologists and reviewed and updated periodically. Total recoverable reserve estimates and reserves dedicated to mines and complexes change from time to time to reflect mining activities, analysis of new engineering and geological data, changes in reserve holdings and other factors. The following table presents the Company's estimated recoverable coal reserves at December 31, 2000:

Total Recoverable Reserves (tonnage in millions)

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