HILDEBRAND J BRUCE
Form 4
February 02, 2012

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
HILDEBRAND J BRUCE

(Last) (First) (Middle)

P. O. BOX 701

(Street)

ABILENE, TX 79604-0701

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FIRST FINANCIAL BANKSHARES INC [FFIN]

3. Date of Earliest Transaction (Month/Day/Year)
02/02/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common stock	02/02/2012		M		1,500	A	$ 27.32	12,769 (1)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (Right to Buy)	$ 27.32 (1)	01/30/2007		M			1,500	01/30/2010	01/30/2017	Common stock	1,500

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HILDEBRAND J BRUCE P. O. BOX 701 ABILENE, TX 79604-0701			Executive Vice President	

Signatures

John Bruce Hildebrand	02/02/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Amount has been adjusted for the three-for-two stock split effective June 1, 2011

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. fff; margin-top: 6pt; margin-left: 0; margin-right: 0; margin-bottom: 0; "> In accordance with the terms of the transaction, the Company paid $50.2 million to Magnum in 2006 to purchase coal and to offset certain ongoing operating expenses of Magnum. In addition, the Company was required under the agreement to manage working capital for the operations sold to Magnum for a period of time after the transaction. As of December 31, 2006, the Company had a current receivable due from Magnum of $8.5 million, included in other receivables on the accompanying Consolidated Balance Sheets.

In accordance with the Purchase Agreement, the Company agreed to various guarantees which are described in Note 22, Guarantees.

On December 30, 2005, the Company completed a reserve swap with Peabody Energy Corp. (Peabody) and sold to Peabody a rail spur, rail loadout and an idle office complex located in the Powder River Basin for a purchase price

of $84.6 million. In the reserve swap, the Company exchanged 60.0 million tons of coal reserves for a similar block of 60.0 million tons of coal reserves with Peabody in order to facilitate more efficient mine plans for both companies. Due to the similarity of the exchanged reserves, the reserves received were recorded at the net book value of the reserves transferred. In conjunction with the transactions, the Company will continue to lease the rail spur and loadout and office facilities through

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2008 while it mines adjacent reserves. The Company recognized a gain of $46.5 million on the transaction, after the deferral of $7.0 million of the gain, equal to the present value of the lease payments. The deferred gain will be recognized over the term of the lease. See further discussion in Note 20, Leases.

During the years ended December 31, 2006, 2005 and 2004, gains (losses) on other dispositions of property, plant and equipment were $(0.6) million, $28.2 million and $6.7 million, respectively. Included in the gain for 2005 was a gain of $9.0 million on the sale of surface land rights at the Company s Central Appalachian operations in West Virginia, a gain of $6.3 million on the assignment of the Company s rights and obligations on several parcels of land and a gain of $7.3 million on the sale of a dragline. Included in the gain for 2004 was the sale of the Company s rights and obligations on a parcel of land to a third party resulting in a gain of $5.8 million.

4. Accumulated Other Comprehensive Income

Other comprehensive income items under Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, are transactions recorded in stockholders equity during the year, excluding net income and transactions with stockholders. Following are the items included in accumulated other comprehensive income (loss):

	Financial Derivatives	Minimum Pension Liability Adjustments	Pension, Postretirement and Other Post-Employment Benefits	Available-for-Sale Securities	Accumulated Other Comprehensive Loss
			(In thousands)		
Balance January 1, 2004	$ (24,159)	$ (15,864)	$	$	$ (40,023)
2004 activity, before tax	13,974	2,002		3,411	19,387
2004 activity, tax effect	(5,450)	(781)		(1,330)	(7,561)
Balance December 31, 2004	(15,635)	(14,643)		2,081	(28,197)
2005 activity, before tax	22,652	(4,510)		13,931	32,073
2005 activity, tax effect	(8,834)	1,759		(5,433)	(12,508)
Balance December 31, 2005	(1,817)	(17,394)		10,579	(8,632)
2006 activity, before tax	(10,437)	24,914		(14,615)	(138)
2006 activity, tax effect	5,742	(9,973)		5,781	1,550
Statement No. 158 adoption		4,090	(22,502)		(18,412)
Statement No. 158 adoption, tax effect		(1,637)	8,100		6,463
Balance December 31, 2006	$ (6,512)	$	$ (14,402)	$ 1,745	$ (19,169)

As discussed in Note 1, Accounting Policies unrealized gains (losses) on derivatives that qualify for hedge accounting as cash flow hedges are recorded in other comprehensive income. The unrealized gains and losses on recording the Company s available-for-sale securities at fair value are recorded through other comprehensive income.

5. Investments

On July 31, 2006, the Company acquired a $33^{1}/3$% equity interest in Knight Hawk Holdings, LLC (Knight Hawk), a coal producer in the Illinois Basin, in exchange for $15.0 million in cash and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approximately 30.0 million tons of coal reserves. The Company recognized a $10.3 million gain on the transaction, representing the difference between the fair market value of the reserves surrendered and their carrying value, less the amount of gain attributable to the ownership interest retained through the investment. This gain is reflected in other operating income, net on the accompanying Consolidated Statements of Income for the year ended December 31, 2006. The Company s income from its investment in Knight Hawk was $2.1 million for the year ended December 31, 2006. At December 31, 2006, the Company had an investment in Knight Hawk of $41.9 million.

On August 23, 2006, the Company acquired a 25% equity interest in DKRW Advanced Fuels LLC (DKRW), a company engaged in developing coal-to-liquids facilities. In exchange, the Company agreed to extend DKRW s existing coal reserve purchase option, to cooperate with DKRW to secure coal reserves at fair value for two additional coal-to-liquids projects outside of the Carbon Basin, and to invest $25.0 million in DKRW. The Company s portion of DKRW s loss was $0.1 million for the year ended December 31, 2006. At December 31, 2006 the Company had an investment in DKRW of $24.9 million.

The Company holds a 17.5% general partnership interest in Dominion Terminal Associates (DTA), which is accounted for on the equity method. DTA operates a ground storage-to-vessel coal transloading facility in Newport News, Virginia used by the partners to transload coal. Financing for the facility was provided through $132.8 million of tax-exempt bonds issued by Peninsula Ports Authority of Virginia (PPAV). DTA leases the facility from PPAV for amounts sufficient to meet debt-service requirements. The Company retired its 17.5% share, or $23.2 million, of the bonds in the fourth quarter of 2005. Under the terms of a throughput and handling agreement with DTA, each partner is charged its share of cash operating and debt-service costs in exchange for the right to use the facility s loading capacity and is required to make periodic cash advances to DTA to fund such costs. The Company s portion of DTA s costs was $2.0 million, $3.4 million and $2.7 million for the years ended December 31, 2006, 2005 and 2004, respectively. At December 31, 2006 and 2005, the Company had an investment in DTA of $13.4 million and $8.5 million, respectively.

Through July 31, 2004, the Company s income from its equity-method investment in Canyon Fuel represented 65% of Canyon Fuel s net income after adjusting for the effect of purchase adjustments related to its investment in Canyon Fuel. The Company s investment in Canyon Fuel reflects purchase adjustments primarily related to the reduction in amounts assigned to sales contracts, mineral reserves and other property, plant and equipment. The purchase adjustments are amortized consistently with the underlying assets of the joint venture. The Company purchased the remaining 35% interest in Canyon Fuel on July 31, 2004. The Company s income from its investment in Canyon Fuel for the seven months ended July 31, 2004 was $8.4 million.

During the year ended December 31, 2004, the Company sold its remaining limited partnership units of Natural Resource Partners L.P. (NRP), representing approximately 12.5% of NRP s outstanding partnership interests, in three separate transactions occurring in March, June and October. These sales resulted in proceeds of approximately $111.4 million and gains of $91.3 million. The Company s income from the equity investment in NRP was $2.4 million for the year ended December 31, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On December 22, 2003, the Company sold 4.8 million subordinated units and its general partner interest in NRP for a purchase price of $115.0 million. This sale resulted in a gain of $70.6 million, of which $42.7 million was recognized in 2003 and the remainder was deferred. As of December 31, 2006 and 2005, the Company had deferred gains from its sales of NRP units totaling $5.5 million and $8.2 million, respectively. The deferred gains are included as other current liabilities and other noncurrent liabilities in the accompanying Consolidated Balance Sheets. Certain leases with NRP were related to the Company s operations sold as part of the Magnum transaction. The company recognized a gain of $5.8 million associated with these leases, which is included in the gain on the transaction with Magnum. The remaining deferred gains will be recognized over the remaining term of the Company s leases with NRP, as follows: $2.2 million in 2007, $1.1 million in 2008 and a total of $2.2 million from 2009 through 2012.

The fair value of investments in stock and other equity interests not accounted for under the equity method of accounting totaled $6.6 million and $23.8 million at December 31, 2006 and 2005, respectively.

6. Inventories

Inventories consist of the following:

	December 31	
	2006	2005
	(In thousands)	
Coal	$ 49,608	$ 73,284
Repair parts and supplies	80,218	57,436
	$ 129,826	$ 130,720

The repair parts and supplies are stated net of an allowance for slow-moving and obsolete inventories of $15.4 million and $16.1 million at December 31, 2006 and 2005, respectively.

The decrease in coal inventories is primarily the result of the implementation of EITF 04-6 discussed in Note 1, Accounting Policies as of January 1, 2006, partially offset by an increase in coal inventories primarily at the Western Bituminous segment s operations. The increase in repair parts and supplies is primarily the result of an increase in tire inventories and higher costs associated with materials and supplies.

7. Derivative Financial Instruments

Diesel fuel price risk management

The Company uses forward physical purchase contracts and heating oil swaps and purchased call options to reduce volatility in the price of diesel fuel for its operations. The changes in the price of heating oil highly correlate to changes in the price of diesel fuel. Accordingly, the derivatives qualify for hedge accounting and the changes in the fair value of the derivatives are recorded through other comprehensive income. At December 31, 2006, the Company held heating oil swaps and purchased call options protecting approximately 68% of its purchases for fiscal year 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of our heating oil swaps and purchased call options:

	December 31, 2006		December 31, 2005	
	Quantity (Gallons)	Fair Value	Quantity (Gallons)	Fair Value
	(In thousands)			
Swaps current asset (liability)	17,100	$ (5,523)	22,800	$ 8,096
Purchased call options current asset	9,900	376	9,300	746

Sulfur dioxide emission allowance price risk management

The Company is exposed to price risk related to the value of sulfur dioxide emission allowances that are a component of the quality adjustment provisions in many of its coal supply agreements. The Company has historically purchased put options and entered into swap contracts to protect the Company from any downturn in the price of sulfur dioxide emission allowances. The Company may also purchase call options to mitigate the risk of changes in the fair value of a contract that contains a fixed price for sulfur dioxide emission allowances.

The following is a summary of sulfur dioxide emission allowance derivatives:

	December 31, 2006		December 31, 2005	
	Quantity	Fair Value	Quantity	Fair Value
	(In thousands)			
Swaps current liability		$	12,000	$ (11,949)
Purchased put options current asset	48,000	206	48,000	239
Purchased call options current asset	12,000	116		

For all of the outstanding put options at December 31, 2006, the Company elected hedge accounting treatment and the change in fair value was recorded through other comprehensive income. All other changes in fair value were recorded in other operating income, net in the accompanying Consolidated Statements of Income.

Interest rate risk management

In the fourth quarter of 2005, the Company terminated certain interest rate swap agreements that at one time had been designated as a hedge of interest rate volatility on floating rate debt. The amounts that had been deferred in accumulated other comprehensive income were amortized as additional expense over the contractual terms of the swap agreements prior to their termination. For the years ended December 31, 2005 and 2004, the Company recognized $(2.3) million and $0.9 million, respectively, of unrealized gains (losses) related to these swaps. In the fourth quarter of 2005, the Company terminated these swaps. For the years ended December 31, 2006, 2005 and 2004, the Company recognized $4.8 million, $7.7 million and $8.3 million of expense, respectively, related to the amortization of the balance in other comprehensive income. The remaining balance of $1.9 million will be amortized from accumulated other comprehensive income into net income in 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Accrued Expenses

Accrued expenses included in current liabilities consist of the following:

	December 31	
	2006	2005
	(In thousands)	
Payroll and employee benefits	$ 50,741	$ 42,697
Taxes other than income taxes	73,235	59,828
Workers compensation	7,844	9,900
Interest	33,151	32,749
Asset retirement obligations	11,111	10,680
Losses on purchase commitments (see Note 3)		65,383
Due to Magnum (see Note 3)		16,000
Other accrued expenses	14,664	8,419
	$ 190,746	$ 245,656

9. Income Taxes

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

	December 31		
	2006	2005	2004
	(In thousands)		
Current:			
Federal	$ 1,213	$ (13,703)	$ 7,583
State			
Total current	1,213	(13,703)	7,583
Deferred:			
Federal	22,700	(22,843)	(5,412)
State	(16,263)	1,896	(2,301)
Total deferred	6,437	(20,947)	(7,713)
	$ 7,650	$ (34,650)	$ (130)

A reconciliation of the statutory federal income tax expense on the Company s pretax income to the actual provision for (benefit from) income taxes follows:

December 31

	2006	2005	2004
		(In thousands)	
Income tax expense at statutory rate	$ 94,003	$ 1,216	$ 39,760
Percentage depletion allowance	(38,754)	(34,752)	(22,807)
State taxes, net of effect of federal taxes	1,576	(3,805)	1,729
Change in valuation allowance, affecting provision	(49,129)	(6,138)	(265)
Termination of interest rate swaps		5,049	180
Favorable tax settlement			(16,861)
Other, net	(46)	3,780	(1,866)
	$ 7,650	$ (34,650)	$ (130)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2006, the tax effect of the adoption of EITF 04-6 was a $16.7 million benefit was recorded to retained earnings. Also, compensatory stock options and other equity based compensation awards were exercised resulting in a tax benefit of $7.7 million that will be allocated to paid-in capital at such point in time when a cash tax benefit is recognized.

During 2005, compensatory stock options were exercised resulting in a tax benefit of $11.6 million that was recorded to paid-in capital.

During 2004, the IRS completed an audit and review of tax returns and claims for tax years 1999 through 2002 resulting in a favorable tax settlement, which includes a $9.7 million reduction in prior years tax reserves. Also, compensatory stock options were exercised resulting in a tax benefit of $5.0 million that was recorded to paid-in capital.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31	
	2006	2005
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 179,705	$ 187,122
Plant and equipment	103,906	88,213
Alternative minimum tax credit carryforwards	86,148	99,782
Losses on purchase commitments		60,499
Reclamation and mine closure	38,314	32,563
Workers compensation	20,245	21,704
Advance royalties	16,816	16,961
Postretirement benefits other than pension	15,689	12,942
Other comprehensive income	9,703	1,688
Tax-based intangibles	9,514	11,574
Other	55,120	43,289
Gross deferred tax assets	535,160	576,337
Valuation allowance	(114,034)	(163,163)
Total deferred tax assets	421,126	413,174
Deferred tax liabilities:		
Investment in tax partnerships	57,917	54,808
Deferred development	28,055	16,197
Coal inventory	1,138	15,842
Other	18,455	14,010
Total deferred tax liabilities	105,565	100,857
Net deferred tax asset	315,561	312,317
Less current asset	51,802	88,461
Long-term deferred tax asset	$ 263,759	$ 223,856

The Company has net operating loss carryforwards for regular income tax purposes that will expire from 2007 to 2023. The Company has an alternative minimum tax credit carryforward of $86.1 million, which has no expiration date and can be used to offset future regular tax in excess of the alternative minimum tax.

The Company has recorded a valuation allowance for a portion of its deferred tax assets that management believes, more likely than not, will not be realized. The valuation allowance decreased $49.1 million during 2006 and $6.1 million during 2005, due to a change in management s assessment of the ability of the Company to realize its deferred tax assets. Of the total valuation allowance at December 31, 2006, $6.5 million pertains to deferred tax benefits associated with the exercise of compensatory stock options and will be allocated to paid in capital when

recognized.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Debt and Financing Arrangements

Debt consists of the following:

	December 31	
	2006	2005
	(In thousands)	
Indebtedness to banks under credit facilities, expiring in 2011	$ 192,300	$
6.75% senior notes ($950.0 million face value) due July 1, 2013	958,881	960,246
Promissory note due 2009	11,624	14,676
Other	10,975	7,482
	1,173,780	982,404
Less current portion	51,185	10,649
Long-term debt	$ 1,122,595	$ 971,755

On June 23, 2006, the Company entered into an amendment to its revolving credit facility to change the pricing grid upon which the interest rate under the credit facility is determined and to extend the maturity date from December 22, 2009 to June 23, 2011. As amended, borrowings under the credit facility bear interest at a floating rate based on LIBOR determined by reference to the Company s leverage ratio, as calculated in accordance with the credit agreement. In addition, the amendment to the credit facility increased the maximum amount of borrowings available to the Company from $700.0 million to $800.0 million and also revised certain restrictive negative covenants and other provisions. The Company s credit facility is secured by substantially all of its assets as well as its ownership interests in substantially all of its subsidiaries, except its ownership interests in Arch Western Resources, LLC and its subsidiaries. The rate in effect as of December 31, 2006 was 6.35%. As of December 31, 2006, borrowings of $103.1 million were outstanding under the credit facility. At December 31, 2006, the Company had $695.5 million of unused borrowings under the revolver. Financial covenant requirements may restrict the amount of unused capacity available to the Company for borrowings and letters of credit. As of December 31, 2006, the Company was not restricted by financial covenants.

On February 10, 2006, the Company established an accounts receivable securitization program, which was increased from $100.0 million to $150.0 million on June 23, 2006, and expires on February 3, 2011. Under the program, the Company s eligible trade receivables are sold, without recourse, to a multi-seller, asset-backed commercial paper conduit. The entity through which these receivables are sold is consolidated into the Company s financial statements. The Company may borrow and draw letters of credit against the facility, and pays facility fees, program fees and letter of credit fees (based on amounts of outstanding letters of credit) at rates that are lower than its borrowings under the revolving credit facility. The fee structure was amended June 23, 2006 such that fees will be determined based on the Company s leverage ratio, as defined in the amendment. The rate in effect as of December 31, 2006 was 5.36%. As of December 31, 2006, borrowings of $89.2 million were outstanding under the program. At December 31, 2006, the Company had no available borrowing capacity under the program.

On October 22, 2004, Arch Western Finance LLC (Arch Western Finance), a subsidiary of the Company, issued $250.0 million of 6.75% Senior Notes due 2013 at a price of 104.75% of par. Interest on the notes is payable on January 1 and July 1 of each year. The senior notes were issued under an indenture

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

dated June 25, 2003, under which Arch Western Finance had previously issued $700.0 million of 6.75% Senior Notes due 2013. The senior notes are guaranteed by Arch Western Resources, LLC (Arch Western Resources), a subsidiary of Arch Western Finance, and certain of its subsidiaries and are secured by a security interest in loans made to Arch Coal by Arch Western Resources. The terms of the senior notes contain restrictive covenants that limit Arch Western Resources ability to, among other things, incur additional debt, sell or transfer assets, and make certain investments.

On July 31, 2004, the Company entered into a five-year, $22.0 million non-interest bearing note with ITOCHU Corporation to help fund the acquisition of the remainder of Canyon Fuel s membership interest. At its issuance, the note was discounted to its present value using a rate of 7.0%. The face amount of the promissory note of $13.0 million at December 31, 2006 is payable in quarterly installments of $1.0 million through July 2008 and $1.5 million from October 2008 through July 2009.

The Company also periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At December 31, 2006, there were no such agreements in effect. At December 31, 2005, there were $20.0 million of such agreements in effect, under which no loans were outstanding.

Aggregate contractual maturities of debt are $51.2 million in 2007, $4.0 million in 2008, $4.3 million in 2009, $0 in 2010, $155.4 million in 2011 and $958.9 million thereafter.

Terms of the Company s credit facilities and leases contain financial and other covenants that limit the ability of the Company to, among other things, acquire or dispose of assets and borrow additional funds and that require the Company to, among other things, maintain various financial ratios and comply with various other financial covenants. In addition, the covenants require the pledging of assets to collateralize the Company s revolving credit facility. The assets pledged include equity interests in wholly-owned subsidiaries, certain real property interests, accounts receivable and inventory of the Company. Failure by the Company to comply with such covenants could result in an event of default, which, if not cured or waived, could have a material adverse effect on the Company. The Company complied with all financial covenants at December 31, 2006.

11. 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 December 31, 2006 and 2005, the carrying amounts of cash and cash equivalents approximate fair value.

Debt: At December 31, 2006 and 2005, the fair value of the Company s senior notes and other long-term debt, including amounts classified as current, was $1,165.4 million and $1,001.6 million, respectively.

Derivatives. See Note 7, Derivative Financial Instruments for the fair value of the Company s derivative instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Asset Retirement Obligations

The Company s asset retirement obligations arise from the Federal Surface Mining Control and Reclamation Act of 1977 and similar state statutes, which require that mine property be restored in accordance with specified standards and an approved reclamation plan. The required reclamation activities to be performed are outlined in the Company s mining permits. These activities include reclaiming the pit and support acreage at surface mines, sealing portals at underground mines, and reclaiming refuse areas and slurry ponds.

The Company accounts for its reclamation obligations in accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations.* The Company reviews its asset retirement obligation at least annually and makes necessary adjustments for permit changes as granted by state authorities and for revisions of estimates of the amount and timing of costs. For ongoing operations, adjustments to the liability result in an adjustment to the corresponding asset. For idle operations, adjustments to the liability are recognized as income or expense in the period the adjustment is recorded.

The following table describes the changes to the Company s asset retirement obligation for the years ended December 31:

	2006	2005
	(In thousands)	
Balance at January 1 (including current portion)	$ 177,408	$ 199,597
Accretion expense	15,426	14,950
Reductions resulting from property disposals		(33,339)
Adjustments to the liability from changes in estimates	27,834	4,191
Liabilities settled	(4,027)	(7,991)
Balance at December 31	216,641	177,408
Current portion included in accrued expenses	(11,111)	(10,680)
Noncurrent liability	$ 205,530	$ 166,728

The adjustments from changes in estimates during the year ended December 31, 2006 resulted from changes in estimates of the timing of asset retirement costs and an increase in the cost estimates, primarily consumables such as tires.

As of December 31, 2006, the Company had $155.7 million in surety bonds outstanding and $265.2 million in self-bonding to secure reclamation obligations.

13. Accrued Workers Compensation

The Company is liable under the Federal Mine Safety and Health Act of 1969, as subsequently amended, to provide for pneumoconiosis (occupational disease) benefits to eligible employees, former employees, and dependents. The Company is also liable under various states statutes for occupational disease benefits. The Company currently provides for federal and state claims principally through a self-insurance program. Charges are being made to operations as determined by independent actuaries, at the present value of the actuarially computed present and future liabilities for such benefits over the employees applicable years of service.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition, the Company is liable for workers compensation benefits for traumatic injuries that are accrued as injuries are incurred. Traumatic claims are either covered through self-insured programs or through state-sponsored workers compensation programs.

Workers compensation expense consists of the following components:

	Year Ended December 31		
	2006	2005	2004
	(In thousands)		
Self-insured occupational disease benefits:			
Service cost	$ 1,014	$ 1,159	$ 1,447
Interest cost	959	1,852	2,660
Net amortization	(1,952)	(3,793)	(1,080)
Total occupational disease	21	(782)	3,027
Traumatic injury claims and assessments	8,552	20,196	18,725
Total provision	$ 8,573	$ 19,414	$ 21,752
Discount rate	5.90%	5.80%	6.00%
Cost escalation rate	3.00%	3.00%	4.00%

Net amortization represents the systematic recognition of actuarial gains or losses over a five-year period.

The reconciliation of changes in the benefit obligation of the occupational disease liability is as follows:

	December 31	
	2006	2005
	(In thousands)	
Beginning of year obligation	$ 16,907	$ 47,641
Service cost	1,014	1,159
Interest cost	959	1,852
Actuarial gain	560	(16,247)
Divestitures		(14,136)
Benefit and administrative payments	(405)	(3,362)
Net obligation at end of year	19,035	16,907
Unrecognized gain		9,763
Accrued cost	$ 19,035	$ 26,670

Summarized below is information about the amounts recognized in the accompanying Consolidated Balance Sheets for workers compensation benefits:

December 31

	2006	2005
	(In thousands)	
Occupational disease costs	$ 19,035	$ 26,670
Traumatic and other workers compensation claims	32,464	37,033
Total obligations	51,499	63,703
Less amount included in accrued expenses	7,844	9,900
Noncurrent obligations	$ 43,655	$ 53,803

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2006, the Company had $59.8 million in surety bonds and letters of credit outstanding to secure workers compensation obligations.

14. Employee Benefit Plans

Defined Benefit Pension and Other Postretirement Benefit Plans

The Company has non-contributory defined benefit pension plans covering certain of its salaried and hourly employees. Benefits are generally based on the employee s age and compensation. The Company funds the plans in an amount not less than the minimum statutory funding requirements nor more than the maximum amount that can be deducted for U.S. federal income tax purposes.

A plan settlement occurred in the second quarter of 2006 because of plan withdrawals from the defined benefit pension plan primarily associated with the disposition of certain of the Company s subsidiaries to Magnum discussed in Note 3 Dispositions. The settlement resulted in an expense of $3.2 million, $1.9 million of which is reflected in other operating (income) expense and the remainder in cost of coal sales in the accompanying Consolidated Statements of Income. The settlement also triggered a remeasurement of the plan obligations as of June 30, 2006.

The Company also currently provides certain postretirement medical/life insurance coverage for eligible employees. Generally, covered employees who terminate employment after meeting eligibility requirements are eligible for postretirement coverage for themselves and their dependents. The salaried employee postretirement medical/life plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features such as deductibles and coinsurance. The Company s current funding policy is to fund the cost of all postretirement medical/life insurance benefits as they are paid.

During 2005, the postretirement benefit plans were amended to improve benefits to participants. As discussed in Note 3, Dispositions, on December 31, 2005, the Company sold three of its subsidiaries with operations in Central Appalachia, along with the related postretirement benefit obligations. The only remaining participants in the postretirement benefit plan have their benefits capped at current levels. This disposition constituted a settlement of the Company s postretirement benefit obligation and a loss of $59.2 million was recognized.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Obligations and Funded Status. Summaries of the changes in the benefit obligations, plan assets and funded status of the plans are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
	(In thousands)			
CHANGE IN BENEFIT OBLIGATIONS				
Benefit obligations at January 1	$ 234,635	$ 218,063	$ 65,034	$ 535,870
Service cost	9,676	11,072	4,673	5,592
Interest cost	12,806	12,655	3,609	31,866
Plan amendments		242		20,010
Divestitures				(455,294)
Settlements	(28,887)			
Benefits paid	(4,471)	(16,228)	(1,432)	(32,963)
Other-primarily actuarial (gain) loss	7,475	8,831	(18,642)	(40,047)
Benefit obligations at December 31	$ 231,234	$ 234,635	$ 53,242	$ 65,034
CHANGE IN PLAN ASSETS				
Value of plan assets at January 1	$ 209,974	$ 191,109	$	$
Actual return on plan assets	20,124	15,060		
Settlements	(28,887)			
Employer contributions	19,321	20,034	1,432	32,963
Benefits paid	(4,471)	(16,228)	(1,432)	(32,963)
Value of plan assets at December 31	$ 216,061	$ 209,975	$	$
NET AMOUNT RECOGNIZED				
Funded status of the plans	$ (15,173)	$ (24,660)	$ (53,242)	$ (65,034)
Unrecognized actuarial loss		37,567		4,149
Unrecognized prior service cost (gain)		(330)		16,497
Prepaid (accrued) benefit cost	$ (15,173)	$ 12,577	$ (53,242)	$ (44,388)
ITEMS NOT YET RECOGNIZED AS A COMPONENT OF NET PERIODIC BENEFIT COST				
Prior service credit (cost)	$ 36	$	$ (14,950)	$
Accumulated gain (loss)	(29,959)		15,121	
	$ (29,923)	$	$ 171	$
BALANCE SHEET AMOUNTS				
Accrued benefit liabilities	$ (15,173)	$ (17,193)	$ (53,242)	$ (44,388)
Intangible asset (other assets)		766		
Minimum pension liability adjustment (accumulated other comprehensive income)		29,004		

Net asset (liability) recognized	$ (15,173)	$ 12,577	$ (53,242)	$ (44,388)
Current	$ (673)	$	$ (3,425)	$ (3,062)
Long-term	$ (14,500)	$ 12,577	$ (49,817)	$ (41,326)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pension Benefits

The accumulated benefit obligation for all pension plans was $220.3 million and $227.0 million at December 31, 2006 and 2005, respectively.

The prior service credit and net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2007 are $(0.3) million and $6.6 million, respectively.

Other Postretirement Benefits

The prior service cost and net gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2007 are $1.7 million and $(3.0) million, respectively.

The postretirement plan amendment relates to the enhancement of benefits to employees discussed above, which also resulted in the increase in the unrecognized prior service cost.

The actuarial gain in 2005 resulted from changes in certain actuarial assumptions, including changes in the cost claims curve.

Components of Net Periodic Benefit Cost. The following table details the components of pension and other postretirement benefit costs.

Year Ended December 31,	Pension Benefits 2006	Pension Benefits 2005	Pension Benefits 2004	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005	Other Postretirement Benefits 2004
	(In thousands)					
Service cost	$ 9,676	$ 11,072	$ 8,861	$ 4,673	$ 5,592	$ 4,145
Interest cost	12,806	12,655	11,781	3,609	31,866	29,695
Expected return on plan assets*	(16,256)	(15,944)	(14,539)			
Other amortization and deferral	7,011	7,393	4,802	2,173	25,882	16,685
Settlements	3,150				59,195	
Net benefit cost	$ 16,387	$ 15,176	$ 10,905	$ 10,455	$ 122,535	$ 50,525

* The Company does not fund its other postretirement liabilities.

Assumptions. The following table provides the assumptions used to determine the actuarial present value of projected benefit obligations at December 31.

	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Weighted average assumptions:				
Discount rate	5.90%	5.80%	5.90%	5.80%
Rate of compensation increase	3.39%	3.50%	N/A	N/A

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides the assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Weighted average assumptions:						
Discount rate	5.80%/6.40%	6.00%	6.50%	5.80%	6.00%	6.50%
Rate of compensation increase	3.50%	3.50%	3.75%	N/A	N/A	N/A
Expected return on plan assets	8.25%	8.50%	8.50%	N/A	N/A	N/A

Due to the plan settlement noted above, the Company remeasured the plan obligations as of June 30, 2006 and changed the discount rate to 6.40% for the second half of 2006. The Company establishes the expected long-term rate of return at the beginning of each fiscal year based upon historical returns and projected returns on the underlying mix of invested assets. The Company utilizes modern portfolio theory modeling techniques in the development of its return assumptions. This technique projects rates of returns that can be generated through various asset allocations that lie within the risk tolerance set forth by members of the Company s pension committee (the Pension Committee). The risk assessment provides a link between a pension s risk capacity, management s willingness to accept investment risk and the asset allocation process, which ultimately leads to the return generated by the invested assets. For the determination of net periodic benefit cost in 2007, the Company will utilize an expected rate of return of 8.5%.

Because postretirement costs for remaining participants are capped at current levels, future changes in health care costs have no future effect on the plan benefits.

Plan Assets. The Company s pension plan weighted average asset allocations by asset category are as follows:

	December 31	
	2006	2005
Equity securities	72%	71%
Debt securities	23%	23%
Cash and equivalents	5%	6%
Total	100%	100%

The Pension Committee is responsible for overseeing the investment of pension plan assets. The Pension Committee is responsible for determining and monitoring appropriate asset allocations and for selecting or replacing investment managers, trustees and custodians. The pension plan s current investment targets are 65% equity, 30% fixed income securities and 5% cash. The Pension Committee reviews the actual asset allocation in light of these targets on a periodic basis and rebalances among investments as necessary. The Pension Committee evaluates the performance of investment managers as compared to the performance of specified benchmarks and peers and monitors the investment managers to ensure adherence to their stated investment style and to the plan s investment guidelines.

Cash Flows. The Company expects to make contributions of $1.7 million to its pension plans in 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following represents expected future benefit payments, which reflect expected future service, as appropriate:

	Pension Benefits	Other Postretirement Benefits
	(In thousands)	
2007	$ 14,112	$ 3,425
2008	15,344	3,609
2009	16,612	3,815
2010	17,791	4,067
2011	18,627	4,386
Years 2012-2016	105,432	25,146
	$187,918	$44,448

Multi-employer Pension and Benefit Plans

The Coal Industry Retiree Health Benefit Act of 1992 (Benefit Act) provides for the funding of medical and death benefits for certain retired members of the UMWA through premiums to be paid by assigned operators (former employers), transfers in 1993 and 1994 from an overfunded pension trust established for the benefit of retired UMWA members, and transfers from the Abandoned Mine Lands Fund (funded by a federal tax on coal production) commencing in 1995. The Company treats its obligation under the Benefit Act as a participation in a multi-employer plan and records expense as premiums are paid. The Company recorded expense of $1.1 million, $3.4 million and $6.0 million in the years ended December 31, 2006, 2005 and 2004, respectively, for premiums pursuant to the Benefit Act.

Other Plans

The Company sponsors savings plans which were established to assist eligible employees in providing for their future retirement needs. The Company s expense representing its contributions to the plans was $13.4 million, $12.4 million and $8.8 million for the years ended December 31, 2006, 2005 and 2004, respectively.

15. Capital Stock

On March 14, 2006, the Company filed a registration statement on Form S-3 with the SEC. The registration statement allows the Company to offer, from time to time, an unlimited amount of debt securities, preferred stock, depositary shares, purchase contracts, purchase units, common stock and related rights and warrants.

Common Stock

On May 15, 2006, the Company completed a two-for-one stock split of the Company s common stock in the form of a 100% stock dividend. All share and per share amounts for the years ended December 31, 2005 and 2004, have been retroactively restated for the split.

On October 28, 2004, the Company completed a public offering of 14,375,000 common shares at $16.93 per share. The proceeds from the offering, net of the underwriters discount and related expenses,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

were $230.5 million. Net proceeds from the offering were used primarily to repay borrowings under the Company s revolving credit facility incurred to finance the acquisition of Triton and the first annual payment under the Little Thunder lease, and the remaining net proceeds were used for general corporate purposes, including the development of the Mountain Laurel mine complex in the Central Appalachia region.

Preferred Stock

Dividends on the Company s 5% Perpetual Cumulative Convertible Preferred Stock (Preferred Stock) are cumulative and payable quarterly at the annual rate of 5% of the liquidation preference. Each share of the Preferred Stock is convertible, under certain conditions, into 4.797 shares of the Company s common stock. The Preferred Stock is redeemable, at the Company s option, on or after January 31, 2008 if certain conditions are met. The holders of the Preferred Stock are not entitled to voting rights on matters submitted to the Company s common stockholders. However, if the Company fails to pay the equivalent of six quarterly dividends, the holders of the Preferred Stock will be entitled to elect two directors to the Company s Board of Directors. During 2006, 6,737 shares of preferred stock were converted to common stock.

On December 1, 2005, the Company issued a tender offer to induce conversion of its Preferred Stock (the Conversion Offer). The Conversion Offer expired on December 30, 2005. The Company accepted for conversion 2,724,418 shares of Preferred Stock to be converted to 13,308,238 shares of common stock, including a conversion premium of 0.0220 shares, on December 31, 2005. The Company recognized a dividend on the Preferred Stock in the amount of $9.5 million, representing the difference in the fair market value of the shares issued in conversion and those convertible pursuant to the original conversion terms.

Stock Repurchase Plan

In September 2006, the Company s Board of Directors authorized a share repurchase program, replacing a program that had been adopted in 2001, for the purchase of up to 14,000,000 shares of the Company s common stock. At December 31, 2006, 12,437,600 million shares of common stock were available for repurchase under the plan. During 2006, the Company purchased 1,562,400 shares of common stock for $43.9 million at an average cost of $28.08 per share. The repurchased shares were retired on December 18, 2006. Future repurchases under the plan will be made at management s discretion and will depend on market conditions and other factors. During 2006 and 2005, 168,400 and 546,000 treasury shares, respectively that were purchased under the former plan were contributed to the pension plans.

16. Stockholder Rights Plan

Under a stockholder rights plan, preferred share purchase rights (Preferred Purchase Rights) entitle their holders to purchase two hundredths of a share of a series of junior participating preferred stock at an exercise price of $42. The Preferred Purchase Rights are exercisable only when a person or group (an Acquiring Person) acquires 20% or more of the Company s common stock or if a tender or exchange offer is announced which would result in ownership by a person or group of 20% or more of the Company s common stock. In certain circumstances, the Preferred Purchase Rights allow the holder (except for the Acquiring Person) to purchase the Company s common stock or voting stock of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

17. Stock Based Compensation and Other Incentive Plans

The Company s Stock Incentive Plan (the Incentive Plan) reserved 18,000,000 shares of the Company s common stock for awards to officers and other selected key management employees of the Company. The Incentive Plan provides the Board of Directors with the flexibility to grant stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance stock or units, merit awards, phantom stock awards and rights to acquire stock through purchase under a stock purchase program (Awards). Awards the Board of Directors elects to pay out in cash do not count against the 18,000,000 shares authorized in the Incentive Plan. The Incentive Plan calls for the adjustment of shares awarded under the plan in the event of a split.

As of December 31, 2006, the Company had stock options, restricted stock, restricted stock units and price contingent stock awards outstanding under the Incentive Plan.

Stock Options

Stock options are generally subject to vesting provisions of at least one year from the date of grant and are granted at a price equal to 100% of the closing market price of the Company s common stock on the date of grant. Information regarding stock option activity under the Incentive Plan follows for the year ended December 31, 2006:

	Common Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Average Contract Life
	(In thousands)		(In thousands)	
Options outstanding at January 1	2,916	$ 10.40		
Granted	27	33.75		
Exercised	(661)	10.64		
Canceled	(9)	18.07		
Options outstanding at December 31	2,273	10.58	$ 44,152	4.67
Options exercisable at December 31	2,203	10.18	43,732	4.56

The aggregate intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004, was $21.2 million, $46.1 million, and $18.3 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information regarding changes in stock options outstanding and not yet vested and the related grant-date fair value under the Incentive Plan follows for the year ended December 31, 2006:

	Common Shares	Weighted Average Grant-Date Fair Value
	(In thousands)	
Unvested options at January 1	974	$ 4.47
Granted	27	13.53
Vested	(922)	4.28
Canceled	(9)	8.14
Unvested options at December 31	70	9.94

Compensation cost of stock option grants is recognized straight-line over the options vesting periods. Compensation expense related to stock options for the year ended December 31, 2006 was $1.5 million. As of December 31, 2006, there was $0.7 million of unrecognized compensation cost related to the unvested stock options. The total fair value of options vested during the years ended December 31, 2006, 2005 and 2004, was $4.0 million, $5.9 million and $20.2 million, respectively. The options fair value was determined using the Black-Scholes option pricing model. Expected volatilities are based on historical stock price movement, and other factors. Substantially all stock options granted vest ratably over three years. The majority of the cost relating to the stock-based compensation plans is included in selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

	2006	2005	2004
Weighted average fair value per share of options granted	$ 13.53	$ 8.45	$ 7.69
Assumptions (weighted average):			
Risk-free interest rate	4.75%	3.70%	3.65%
Expected dividend yield	0.7%	0.9%	1.0%
Expected volatility	40.7%	51.1%	52.7%
Expected life (in years)	5.0	5.0	5.0

Restricted Stock and Restricted Stock Unit Awards

The Company may issue restricted stock and restricted stock units, which require no payment from the employee. Restricted stock cliff-vests at various dates and restricted stock units typically vest ratably over three years. Compensation expense is based on the fair value on the grant date and is recorded ratably over the vesting period. During the vesting period, the employee receives cash compensation equal to the amount of dividends that would have been paid on the underlying shares.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information regarding restricted stock and restricted stock unit activity and weighted average grant-date fair value follows for the year ended December 31, 2006:

	Restricted Stock		Restricted Stock Units	
	Common Shares	Weighted Average Grant-Date Fair Value	Common Shares	Weighted Average Grant-Date Fair Value
	(In thousands)		(In thousands)	
Outstanding at January 1	82	$23.20	327	$14.49
Granted	18	36.73	32	37.77
Vested	(14)	21.75	(109)	15.47
Canceled				
Outstanding at December 31	86	26.20	250	16.98

The weighted average fair value of restricted stock granted during 2005 was $23.01. The weighted average fair value of restricted stock units granted during 2005 and 2004 was $22.27 and $14.23, respectively. The total fair value of restricted stock that vested during 2006 was $0.3 million. The total fair value of restricted stock units that vested during 2006 and 2005 was $1.7 million and $1.4 million, respectively. Unearned compensation of $2.7 million will be recognized over the remaining vesting period of the outstanding restricted stock and restricted stock units. The Company recognized expense of approximately $2.0 million, $2.2 million and $2.4 million related to restricted stock and restricted stock units for the years ended December 31, 2006, 2005 and 2004, respectively.

Performance-Contingent Phantom Stock Awards

The Company awarded performance-contingent phantom stock to 11 of its executives in the third quarter of 2005. The awards allow participants to earn up to an aggregate of 505,200 units, to be paid out in both cash and stock upon attainment of certain levels of stock price and EBITDA, as defined by the Company. Under Statement No. 123R, the cash portion of the plan is accounted for as a liability, based on the estimated payout under the awards. The stock portion is recorded utilizing the grant-date fair value of the award, based on a lattice model valuation. The Company met the EBITDA target in the third quarter of 2006 and estimates meeting the stock price target in 2007 and issuing the maximum 505,200 units under the plan. The Company recognized $7.9 million and $4.5 million of expense related to this award in the years ended December 31, 2006 and 2005, respectively. The expense is included in selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

On January 14, 2004, the Company granted an award of 441,532 shares of performance-contingent phantom stock that vested in the event the Company s stock price reached an average pre-established price over a period of 20 consecutive trading days within five years following the date of grant. On March 3, 2005, the price contingency discussed above was met, and the award was paid in a combination of Company stock ($7.3 million) and cash ($2.6 million). As such, the Company recognized a $9.9 million charge as a component of selling, general and administrative expense ($9.1 million) and cost of coal sales ($0.8 million) in the accompanying Consolidated Statements of Income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Risk Concentrations

Credit Risk and Major Customers

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

The Company markets its coal principally to electric utilities in the United States. Sales to customers in foreign countries were $162.5 million, $166.0 million and $134.0 million for the years ended December 31, 2006, 2005 and 2004, respectively. As of December 31, 2006 and 2005, accounts receivable from electric utilities located in the United States totaled $159.7 million and $146.6 million, respectively, or 76% and 82% of total trade receivables for 2006 and 2005, respectively. Generally, credit is extended based on an evaluation of the customer s financial condition, and collateral is not generally required. Credit losses are provided for in the financial statements and historically have been minimal.

The Company is committed under long-term contracts to supply coal that meets certain quality requirements at specified prices. These prices are generally adjusted based on indices. Quantities sold under some of these contracts may vary from year to year within certain limits at the option of the customer. The Company and its operating subsidiaries sold approximately 135.0 million tons of coal in 2006. Approximately 78% of this tonnage (representing 77% of the Company s revenue) was sold under long-term contracts (contracts having a term of greater than one year). Prices for coal sold under long-term contracts ranged from $6.70 to $101.09 per ton. Long-term contracts ranged in remaining life from one to 11 years. Some of these contracts include pricing which is above current market prices. Sales (including spot sales) to major customers were as follows:

	2006	2005	2004
		(In thousands)	
TVA	$ 317,837	$ 306,896	$ 147,338
Progress Energy	69,143	199,514	228,203

Transportation

The Company depends upon barge, rail, truck and belt transportation systems to deliver coal to its customers. Disruption of these transportation services due to weather-related problems, mechanical difficulties, strikes, lockouts, bottlenecks, and other events could temporarily impair the Company s ability to supply coal to its customers, resulting in decreased shipments. Disruptions in rail service in 2005 resulted in missed shipments and production interruptions. The Company has no long-term contracts with transportation providers to ensure consistent and reliable service.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share. All share and per share amounts for the years ended December 31, 2005 and 2004 have been retroactively restated for the two-for-one split discussed in Note 1, Accounting Policies.

	2006		
	Numerator (Income)	Denominator (Shares)	Per Share Amount
	(In thousands, except per share data)		
Basic EPS:			
Net income	$ 260,931	142,770	$ 1.83
Preferred stock dividends	(378)		
Basic income available to common stockholders	$ 260,553		$ 1.83
Effect of dilutive securities:			
Effect of common stock equivalents under Incentive Plan		1,342	
Effect of common stock equivalents arising from Preferred Stock	378	700	
Diluted EPS:			
Diluted income available to common stockholders	$ 260,931	144,812	$ 1.80

	2005		
	Numerator (Income)	Denominator (Shares)	Per Share Amount
	(In thousands, except per share data)		
Basic EPS:			
Net income	$ 38,123	127,304	$ 0.30
Preferred stock dividends	(15,579)		(0.12)
Basic income available to common stockholders	$ 22,544		$ 0.18
Effect of dilutive securities:			
Effect of common stock equivalents under Incentive Plan		1,914	
Effect of common stock equivalents arising from Preferred Stock	18	722	
Diluted EPS:			
Diluted income available to common stockholders	$ 22,562	129,940	$ 0.17

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2004		
	Numerator (Income)	Denominator (Shares)	Per Share Amount
	(In thousands, except per share data)		
Basic EPS:			
Net income	$ 113,706	111,802	$ 1.02
Preferred stock dividends	(7,187)		(0.07)
Basic income available to common stockholders	$ 106,519		$ 0.95
Effect of dilutive securities:			
Effect of common stock equivalents under Incentive Plan		1,874	
Effect of common stock equivalents arising from Preferred Stock	7,187	13,792	
Diluted EPS:			
Diluted income available to common stockholders	$ 113,706	127,468	$ 0.89

For the year ended December 31, 2005, 13,070,000 shares, representing the common stock conversion equivalent of the Preferred Stock converted on December 31, 2005, and $15.6 million, representing the related dividends and conversion inducement, were excluded from the diluted earnings per common share calculation because their effect was anti-dilutive.

20. Leases

The Company leases equipment, land and various other properties under non-cancelable long-term leases, expiring at various dates. Certain leases contain options that would allow the Company to extend the lease or purchase the leased asset at the end of the base lease term. Rental expense related to these operating leases amounted to $28.8 million in 2006, $31.8 million in 2005 and $22.7 million in 2004. In addition, the Company enters into various non-cancelable royalty lease agreements under which future minimum payments are due.

Minimum payments due in future years under these agreements in effect at December 31, 2006 are as follows:

	Operating Leases	Royalties
	(In thousands)	
2007	$ 28,042	$ 26,878
2008	27,173	25,191
2009	22,842	23,038
2010	19,435	22,442
2011	22,385	20,619
Thereafter	19,947	21,861
	$ 139,824	$ 140,029

On December 31, 2005, the Company sold its rail spur, rail loadout and idle office complex at its Thunder Basin mining complex in Wyoming, which it will lease back while it mines adjacent reserves. The Company will pay $0.2 million per month through September 2008, with an option to extend on a month-to-month basis through September 2010. The Company deferred a gain on the sale, equal to the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

present value of the minimum lease payments, to be amortized over the term of the lease. At December 31, 2006 and 2005, the Company had deferred gains totaling $4.5 million and $7.0 million, respectively, related to the sale.

As of December 31, 2006, certain of the Company s lease obligations were secured by outstanding surety bonds totaling $33.0 million.

21. Related Party Transactions

The Company received administration and production fees from Canyon Fuel for managing the Canyon Fuel operations through July 31, 2004, when the Company purchased the 35% interest it did not previously own. The fee arrangement was calculated annually and approved by the Canyon Fuel Management Board. The production fee was calculated on a per-ton basis while the administration fee represented the costs incurred by the Company s employees related to Canyon Fuel administrative matters. The fees recognized as other operating income by the Company and as expense by Canyon Fuel were $4.8 million for the year ended December 31, 2004.

From October 2002 through October 2004, the Company held an ownership interest in NRP. The Company leases certain coal reserves from NRP and pays royalties to NRP for the right to mine those reserves. Terms of the leases require the Company to prepay royalties with those payments recoupable against production. Amounts recognized as cost of coal sales for royalties paid to NRP during the year ended December 31, 2004 was $15.4 million.

22. Guarantees

In accordance with the Purchase Agreement, the Company agreed to continue to provide surety bonds and letters of credit for reclamation, workers compensation and retiree healthcare obligations of Magnum related to the properties sold on December 31, 2005 in order to facilitate an orderly transition. The Purchase Agreement requires Magnum to reimburse the Company for costs related to the surety bonds and letters of credit and to use commercially reasonable efforts after closing to replace the obligations. If the surety bonds and letters of credit related to the reclamation obligations are not replaced by Magnum within two years of closing the transaction, Magnum must post a letter of credit in favor of the Company in the amounts of the obligations. Letters of credit related to workers compensation obligations were replaced by Magnum during the fourth quarter of 2006. At December 31, 2006, the Company has $92.0 million of surety bonds related to properties sold to Magnum.

In addition, the Company has agreed to guarantee the performance of Magnum with respect to certain coal sales contracts sold to Magnum, the longest of which extends to the year 2017, and certain operating leases, the longest of which ends in 2011. Under the coal sales contracts, the customers must approve the assignment of the contracts to Magnum. Until the contracts are assigned, the Company is purchasing the coal from Magnum to sell to these customers at the same price it is charging the customers for the sale. One customer agreed to the assignment in the second quarter of 2006, under the agreement that the Company would continue to guarantee Magnum s performance until the end of 2006. If Magnum is unable to supply the coal for these coal sales contracts then the Company would be required to purchase coal on the open market or supply the contract from its existing operations. If the Company were required to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

purchase coal to supply the contracts over their duration at market prices effective at December 31, 2006, the cost of the purchased coal would exceed the sales price under the contracts by $97.1 million. If the Company were required to perform under its guarantee of the operating lease agreements, it would be required to make $15.3 million of lease payments. The Company believes that it is remote that the Company would be required to perform under these guarantees. However, if the Company would have to perform under these guarantees, it could potentially have a material adverse effect on the business, results of operations and financial condition of the Company.

In connection with the Company s acquisition of the coal operations of Atlantic Richfield Company (ARCO) and the simultaneous combination of the acquired ARCO operations and the Company s Wyoming operations into the Arch Western joint venture, the Company agreed to indemnify the other member of Arch Western against certain tax liabilities in the event that such liabilities arise prior to June 1, 2013 as a result of certain actions taken, including the sale or other disposition of certain properties of Arch Western, the repurchase of certain equity interests in Arch Western by Arch Western or the reduction under certain circumstances of indebtedness incurred by Arch Western in connection with the acquisition. If the Company were to become liable, the maximum amount of potential future tax payments was $173.7 million at December 31, 2006, of which none is recorded as a liability on the Company s financial statements. Since the indemnification is dependent upon the initiation of activities within the Company s control and the Company does not intend to initiate such activities, it is remote that the Company will become liable for any obligation related to this indemnification. However, if such indemnification obligation were to arise, it could potentially have a material adverse effect on the business, results of operations and financial condition of the Company.

In addition, tax reporting applied to this transaction by the other member of Arch Western was being audited by the Internal Revenue Service (IRS). The Company does not believe that it is bound by the outcome of this audit. Nevertheless, the Company anticipates that it will soon begin negotiations with the IRS as to adjustments, if any, of Arch Western s tax reporting. The outcome of these negotiations when settled could result in adjustments to the basis of the partnership assets, and it is possible the Company may be required to adjust its deferred income taxes associated with its investment in Arch Western. Given the uncertainty of how an adverse outcome would affect the Company s deferred income tax position coupled with potential offsetting tax positions that the Company may be able to take, the Company is not able to reasonably determine the resulting outcome of this issue. However, any change that impacts the Company related to an IRS negotiation may result in a non-cash decrease in deferred income tax assets associated with the Company s investment in Arch Western and could fall within a range of zero to $41.0 million.

23. Contingencies

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Cash Flow

The changes in operating assets and liabilities as shown in the accompanying Consolidated Statements of Cash Flows are comprised of the following:

	Year Ended December 31		
	2006	2005	2004
	(In thousands)		
Increase in operating assets:			
Receivables	$ (49,265)	$ (48,432)	$ (31,570)
Inventories	(39,783)	(38,368)	(12,422)
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	(115,123)	108,536	(6,780)
Income taxes	20,505	(33,513)	(4,215)
Accrued postretirement benefits other than pension	8,662	28,660	18,019
Asset retirement obligations	10,967	6,498	5,126
Accrued workers compensation	(2,898)	(9,705)	(1,257)
Other		14,701	(21,626)
Changes in operating assets and liabilities	$ (166,935)	$ 28,377	$ (54,725)

25. Segment Information

The Company produces steam and metallurgical coal from surface and underground mines for sale to utility, industrial and export markets. The Company operates only in the United States, with mines in the major low-sulfur coal basins. The Company has three reportable business segments, which are based on the coal basins in which the Company operates. 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. The Company manages its coal sales by coal basin, not by individual mine complex. 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 Powder River Basin (PRB), with operations in Wyoming; Central Appalachia (CAPP), with operations in southern West Virginia, eastern Kentucky and Virginia; and Western Bituminous (WBIT), with operations in Utah and Colorado and Southern Wyoming.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating segment results for the years ended December 31, 2006, 2005 and 2004 are presented below. Results for the operating segments include all direct costs of mining. Corporate, Other and Eliminations includes corporate overhead, land management, other support functions, and the elimination of intercompany transactions.

	PRB	CAPP	WBIT	Corporate, Other and Eliminations	Consolidated
			(In thousands)		
December 31, 2006					
Coal sales	$ 1,043,373	$ 998,112	$ 458,946	$	$ 2,500,431
Income (loss) from operations	215,696	58,835	126,387	(64,251)	336,667
Total assets	1,584,483	857,934	1,841,104	(962,707)	3,320,814
Depreciation, depletion and amortization	111,350	48,789	46,530	1,685	208,354
Capital expenditures	121,736	231,311	138,631	131,509	623,187

	PRB	CAPP	WBIT	Corporate, Other and Eliminations	Consolidated
			(In thousands)		
December 31, 2005					
Coal sales	$ 756,874	$ 1,349,666	$ 402,233	$	$ 2,508,773
Income (loss) from operations	132,174	(15,830)	59,747	(98,234)	77,857
Total assets	1,333,289	786,091	1,723,744	(791,684)	3,051,440
Depreciation, depletion and amortization	106,870	70,605	33,364	1,462	212,301
Capital expenditures	30,668	235,313	77,932	13,229	357,142

	PRB	CAPP	WBIT	Corporate, Other and Eliminations	Consolidated
			(In thousands)		
December 31, 2004					
Coal sales	$ 582,421	$ 1,126,258	$ 198,489	$	$ 1,907,168
Income from equity investments			8,410	2,418	10,828
Income from operations	72,441	39,196	18,145	48,264	178,046
Total assets	1,154,317	2,088,224	1,663,764	(1,649,770)	3,256,535
Depreciation, depletion and amortization	78,074	62,761	24,113	1,374	166,322
Capital expenditures	55,035	84,450	23,276	129,844	292,605

A reconciliation of segment income from operations to consolidated income before income taxes follows:

	2006	2005	2004
		(In thousands)	
Income from operations	$ 336,667	$ 77,857	$ 178,046
Interest expense	(64,364)	(72,409)	(62,634)
Interest income	3,725	9,289	6,130
Other non-operating expense	(7,447)	(11,264)	(7,966)
Income before income taxes	$ 268,581	$ 3,473	$ 113,576

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Quarterly Financial Information (Unaudited)

Quarterly financial data for the years ended December 31, 2006 and 2005 is summarized below:

	March 31 (a)(b)(c)	June 30 (a)(b)(c)	September 30 (a)(b)(c)(d)	December 31 (a)(b)(c)
		(In thousands)		
2006:				
Coal sales	$ 634,553	$ 637,476	$ 610,045	$ 618,357
Gross profit	105,782	113,867	81,946	80,660
Income from operations	94,137	99,848	82,201	60,481
Net income available to common stockholders	60,624	69,593	50,825	79,511
Basic earnings per common share(g)	0.43	0.49	0.35	0.56
Diluted earnings per common share(g)	0.42	0.48	0.35	0.55

	March 31 (e)(f)	June 30	September 30 (e)	December 31 (a)(b)(e)(f)
		(In thousands)		
2005:				
Coal sales	$ 600,464	$ 633,797	$ 654,716	$ 619,796
Gross profit	29,921	39,582	50,149	2,813
Income (loss) from operations	25,952	21,493	34,177	(3,765)
Net income (loss) available to common stockholders	4,778	1,677	17,129	(1,040)
Basic earnings (loss) per common share(g)	0.04	0.01	0.13	(0.01)
Diluted earnings (loss) per common share(g)	0.04	0.01	0.13	(0.01)

(a) A combustion-related event in October 2005 caused the idling of the Company s West Elk mine in Colorado into the first quarter of 2006, which cost the Company an estimated $30.0 million in lost profits during the first quarter of 2006, in addition to the effect of the idling and fire-fighting costs incurred during the fourth quarter of 2005 of $33.3 million. The Company recorded insurance recoveries related to the event in the first, second, third and fourth quarters of 2006 of $10.0 million, $10.0 million, $10.0 million and $11.9 million, respectively. Of these recoveries, $19.5 million was for business interruption. The insurance recoveries are reflected as a reduction of cost of coal sales in the accompanying Consolidated Statements of Income and the balance receivable at December 31, 2006 of $11.9 million related to these recoveries is reflected in other current receivables on the accompanying Consolidated Balance Sheets.

(b) On December 31, 2005, the Company sold the stock of three subsidiaries and their four associated mining operations and coal reserves in Central Appalachia to Magnum. During the first, second, third and fourth quarters of 2006, the Company recorded a charge to earnings of $6.7 million, $1.7 million, $0.1 million and $0.2 million, respectively, related primarily to the finalization of working capital adjustments to the purchase price, pursuant to the Purchase Agreement, adjustments to estimated volumes associated with sales contracts acquired by Magnum and the settlement of pension obligations. During the fourth quarter of 2005 the Company recognized a gain on the sale of its Central Appalachian operations to Magnum of $7.5 million.

(c) On January 1, 2006, the Company adopted EITF 04-6. Under EITF 04-6, stripping costs incurred during the production phase of the mine are variable production costs that are included in the cost of inventory extracted during the period the stripping costs are incurred. Historically, the Company had classified stripping costs at its surface mining operations associated with the tons of coal uncovered and not yet extracted (pit inventory) as coal inventory. During the first, second, third and fourth quarters of 2006, the Company s net income was $5.1 million, $2.7 million, $3.8 million and $(1.0) million higher

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(lower) than it would have been under the Company s previous method of accounting for pit inventory, an impact of $0.04, $0.02, $0.03 and $(0.01) per share respectively.

(d) During the third quarter of 2006, the Company acquired a 33 1/3% equity interest in Knight Hawk in exchange for $15.0 million in cash and approximately 30.0 million tons of coal reserves. The Company recognized a $10.3 million gain reflected in other operating income, net on the transaction, representing the difference between the fair market value of the reserves surrendered and their carrying value, less the amount of gain attributable to the ownership interest retained through the investment.

(e) The Company recognized a gain of $6.3 million on the assignment of its rights and obligations on several parcels of land in West Virginia and a gain of $7.3 million on a dragline sale in the first quarter of 2005, and a gain of $9.0 million on the sale of surface land rights at its Central Appalachian operations in West Virginia in the third quarter of 2005. In the fourth quarter of 2005, the Company recognized a gain of $46.5 million on the sale of a rail spur, rail loadout and an idle office complex.

(f) In the first and fourth quarters of 2005, the Company recognized charges under its performance-contingent phantom stock awards of $9.9 million and $4.5 million, respectively, as a component of selling, general and administrative expense ($9.1 million and $4.5 million, respectively) and cost of coal sales ($0.8 million and $0), respectively.

(g) On May 15, 2006, the Company completed a two-for-one stock split of the Company s common stock in the form of a 100% stock dividend. All share and per share amounts have been retroactively restated for the split. The sum of the quarterly earnings (loss) per common share amounts may not equal earnings (loss) per common share for the full year because per share amounts are computed independently for each quarter and for the year based on the weighted average number of common shares outstanding during each period.

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Schedule II

Arch Coal, Inc. and Subsidiaries
Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Charged to Other Accounts	Deductions(1)	Balance at End of Year
			(In thousands)		
Year ended December 31, 2006					
Reserves deducted from asset accounts:					
Other assets other notes and accounts Receivable	$ 1,777	$ 1,379	$	$	$ 3,156
Current assets supplies and inventory	15,335	614		527	15,422
Deferred income taxes	163,163	(49,129)			114,034
Year ended December 31, 2005					
Reserves deducted from asset accounts:					
Other assets other notes and accounts receivable	3,001	1,345	(944)(2)	1,625	1,777
Current assets supplies and inventory	22,976	(630)	(5,780)(2)	1,231	15,335
Deferred income taxes	163,005	(6,138)	6,296 (4)		163,163
Year ended December 31, 2004					
Reserves deducted from asset accounts:					
Other assets other notes and accounts receivable	1,469	570	962 (3)		3,001
Current assets supplies and inventory	18,763	1,746	3,010 (3)	543	22,976
Deferred income taxes	161,113	(265)	2,157 (4)		163,005

(1) Reserves utilized, unless otherwise indicated.

(2) Balance upon disposition of Central Appalachian operations.

(3) Balance at acquisition date of subsidiaries.

(4)

Amount represents the valuation allowance for tax benefits from the exercise of employee stock options. The benefit, net of valuation allowance, was recorded as paid-in capital.

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Signatures

Pursuant to the requirements of Section 13 and 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Arch Coal, Inc.

Steven F. Leer
Chairman and Chief Executive Officer
March 1, 2007

Signatures	Capacity	Date
Steven F. Leer	Chairman and Chief Executive Officer (Principal Executive Officer)	March 1, 2007
Robert J. Messey	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2007
John W. Lorson	Controller (Principal Accounting Officer)	March 1, 2007
* James R. Boyd	Director	March 1, 2007
* Frank M. Burke	Director	March 1, 2007
John W. Eaves	President, Chief Operating Officer and Director	March 1, 2007
* Patricia F. Godley	Director	March 1, 2007

*	Director	March 1, 2007
Douglas H. Hunt		
*	Director	March 1, 2007
Brian J. Jennings		

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Signatures	Capacity	Date
*	Director	March 1, 2007
Thomas A. Lockhart		
*	Director	March 1, 2007
A. Michael Perry		
*	Director	March 1, 2007
Robert G. Potter		
*	Director	March 1, 2007
Theodore D. Sands		
*	Director	March 1, 2007
Wesley M. Taylor		

*By:

Robert G. Jones,
Attorney-in-fact

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Exhibit Index

Exhibit	Description
2.1	Purchase and Sale Agreement, dated as of December 31, 2005, by and between Arch Coal, Inc. and Magnum Coal Company (incorporated herein by reference to Exhibit 10.1 of the registrant s Current Report on Form 8-K filed on January 6, 2006).
2.2	Amendment No. 1 to the Purchase and Sale Agreement, dated as of February 7, 2006, by and between Arch Coal, Inc. and Magnum Coal Company (incorporated by reference to Exhibit 2.1 of the registrant s Annual Report on Form 10-K for the year ended December 31, 2005).
2.3	Amendment No. 2 to the Purchase and Sale Agreement, dated as of April 27, 2006, by and between Arch Coal, Inc. and Magnum Coal Company (incorporated herein by reference to Exhibit 2.1 of the registrant s Quarterly Report on Form 10-Q for the period ended June 30, 2006).
3.1	Restated Certificate of Incorporation of Arch Coal, Inc. (incorporated by reference to Exhibit 3.1 of the registrant s Current Report on Form 8-K filed on May 5, 2006).
3.2	Restated and Amended Bylaws of Arch Coal, Inc. (incorporated by reference to Exhibit 3.2 of the registrant s Annual Report on Form 10-K for the year ended December 31, 2000).
4.1	Form of Rights Agreement, dated March 3, 2000 (incorporated by reference to Exhibit 1 to the registrant s Current Report on Form 8-A filed on March 9, 2000).
4.2	Description of Indenture pursuant to Shelf Registration Statement (incorporated herein by reference to the Registration Statement on Form S-3 (Registration No. 333-58738) filed by the registrant on April 11, 2001).
4.3	Certificate of Designations Establishing the Designations, Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of the registrant s 5% Perpetual Cumulative Convertible Preferred Stock (incorporated herein by reference to Exhibit 3 to the Registration Statement on Form 8-A filed by the registrant on March 5, 2003).
4.4	Indenture, dated as of June 25, 2003, by and among Arch Western Finance, LLC, Arch Coal, Inc., Arch Western Resources, LLC, Arch of Wyoming, LLC, Mountain Coal Company, L.L.C., Thunder Basin Coal Company, L.L.C. and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-4 (Reg. No. 333-107569) filed by Arch Western Finance, LLC on August 1, 2003).
10.1	Credit Agreement, dated as of December 22, 2004, by and among Arch Coal, Inc., the Banks party thereto, PNC Bank, National Association, as administrative agent, Citicorp USA, Inc., JPMorgan Chase Bank, N.A., and Wachovia Bank, National Association, as co-syndication agents, and Fleet National Bank, as documentation agent (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed by the registrant on December 28, 2004).
10.2	First Amendment to Credit Agreement, dated as of June 23, 2006, by and among Arch Coal, Inc., the banks party thereto, Citicorp USA, Inc., JPMorgan Chase Bank, N.A. and Wachovia Bank, National Association, each in its capacity as syndication agent, Bank of America, N.A. (as successor-by-merger to Fleet National Bank), as documentation agent, and PNC Bank, National Association, as administrative agent for the banks (incorporated by reference to Exhibit 10.1 of the registrant s Current Report on Form 8-K filed on June 27, 2006).
10.3	Second Amendment to Credit Agreement, dated as of October 3, 2006, by and among Arch Coal, Inc., the banks party thereto, Citicorp USA, Inc., JPMorgan Chase Bank, N.A. and Wachovia Bank, National Association, each in its capacity as syndication agent, Bank of America, N.A. (as successor-by-merger to Fleet National Bank), as documentation agent, and

	PNC Bank, National Association, as administrative agent for the banks (incorporated by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K filed on October 6, 2006).
10.4*	Employment Agreement, dated November 10, 2006, between Arch Coal, Inc. and Steven F. Leer (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the registrant on November 16, 2006).
10.5*	Form of Employment Agreement for Executive Officers of Arch Coal, Inc. (other than Steven F. Leer) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the registrant on November 16, 2006).
10.6	Coal Lease Agreement dated as of March 31, 1992, among Allegheny Land Company, as lessee, and UAC and Phoenix Coal Corporation, as lessors, and related guarantee (incorporated herein by reference to the Current Report on Form 8-K filed by Ashland Coal, Inc. on April 6, 1992).

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Exhibit	Description
10.7	Lease dated as of October 1, 1987, between Pocahontas Land Corporation and Mingo Logan Collieries Company whose name is now Mingo Logan Coal Company (incorporated herein by reference to Exhibit 10.3 to Amendment No. 1 to the Current Report on Form 8-K filed by Ashland Coal, Inc. on February 14, 1990).
10.8	Consent, Assignment of Lease and Guaranty dated January 24, 1990, among Pocahontas Land Corporation, Mingo Logan Coal Company, Mountain Gem Land, Inc. and Ashland Coal, Inc. (incorporated herein by reference to Exhibit 10.4 to Amendment No. 1 to the Current Report on Form 8-K filed by Ashland Coal, Inc. on February 14, 1990).
10.9	Federal Coal Lease dated as of June 24, 1993 between the United States Department of the Interior and Southern Utah Fuel Company (incorporated herein by reference to Exhibit 10.17 of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998).
10.10	Federal Coal Lease between the United States Department of the Interior and Utah Fuel Company (incorporated herein by reference to Exhibit 10.18 of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998).
10.11	Federal Coal Lease dated as of July 19, 1997 between the United States Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10.19 of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998).
10.12	Federal Coal Lease dated as of January 24, 1996 between the United States Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.20 of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998).
10.13	Federal Coal Lease Readjustment dated as of November 1, 1967 between the United States Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.21 of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998).
10.14	Federal Coal Lease effective as of May 1, 1995 between the United States Department of the Interior and Mountain Coal Company (incorporated herein by reference to Exhibit 10.22 of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998).
10.15	Federal Coal Lease dated as of January 1, 1999 between the Department of the Interior and Ark Land Company (incorporated herein by reference to Exhibit 10.23 of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998).
10.16	Federal Coal Lease dated as of October 1, 1999 between the United States Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10 of the registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999).
10.17	Federal Coal Lease effective as of March 1, 2005 by and between the United States of America and Ark Land LT, Inc. covering the tract of land known as Little Thunder in Campbell County, Wyoming (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed by the registrant on February 10, 2005).
10.18	Modified Coal Lease (WYW71692) executed January 1, 2003 by and between the United States of America, through the Bureau of Land Management, as lessor, and Triton Coal Company, LLC, as lessee, covering a tract of land known as North Rochelle in Campbell County, Wyoming (incorporated by reference to Exhibit 10.24 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2004).
10.19	Coal Lease (WYW127221) executed January 1, 1998 by and between the United States of America, through the Bureau of Land Management, as lessor, and Triton Coal Company, LLC, as lessee, covering a tract of land known as North Roundup in Campbell County,

	Wyoming (incorporated by reference to Exhibit 10.24 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2004).
10.20	State Coal Lease executed October 1, 2004 by and between The State of Utah, Thru School & Institutional Trust Lands Admin, as lessor, and Ark Land Company and Arch Coal, Inc. as lessees, covering a tract of land located in Seiever County, Utah.
10.21	State Coal Lease executed September 1, 2000 by and between The State of Utah, Thru School & Institutional Trust Lands Admin, as lessor, and Canyon Fuel Company, LLC, as lessee, for lands located in Carbon County, Utah.
10.22	Federal Coal Lease executed September 1, 1996 by and between the Bureau of Land Management, as lessor, and Canyon Fuel Company, LLC, as lessee, covering a tract of land known as The North Lease in Carbon County, Utah.

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Exhibit	Description
10.23	Form of Indemnity Agreement between Arch Coal, Inc. and Indemnitee (as defined therein) (incorporated herein by reference to Exhibit 10.15 of the Registration Statement on Form S-4 (Registration No. 333-28149) filed by the registrant on May 30, 1997).
10.24*	Arch Coal, Inc. Incentive Compensation Plan For Executive Officers (incorporated herein by reference to Exhibit 99.1 of the Current Report on Form 8-K filed by the registrant on February 28, 2005).
10.25*	Arch Coal, Inc. (formerly Arch Mineral Corporation) Deferred Compensation Plan (incorporated herein by reference to Exhibit 4.1 of the Registration Statement on Form S-8 (Registration No. 333-68131) filed by the registrant on December 1, 1998).
10.26*	Arch Coal, Inc. 1997 Stock Incentive Plan (as Amended and Restated on February 28, 2002) (incorporated herein by reference to Exhibit 10.1 to the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
10.27*	Arch Mineral Corporation 1996 ERISA Forfeiture Plan (incorporated herein by reference to Exhibit 10.20 to the Registration Statement on Form S-4 (Registration No. 333-28149) filed by the registrant on May 30, 1997).
10.28*	Arch Coal, Inc. Outside Directors Deferred Compensation Plan effective January 1, 1999 (incorporated herein by reference to Exhibit 10.30 of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998).
10.29*	Second Amendment to the Arch Mineral Corporation Supplemental Retirement Plan effective January 1, 1998 (incorporated herein by reference to Exhibit 10.31 of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998).
10.30	Receivables Purchase Agreement, dated as of February 3, 2006, among Arch Receivable Company, LLC, Arch Coal Sales Company, Inc., Market Street Funding LLC, as issuer, the financial institutions from time to time party thereto, as LC Participants, and PNC Bank, National Association, as Administrator on behalf of the Purchasers and as LC Bank (incorporated herein by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K filed on February 14, 2006).
10.31	First Amendment to Receivables Purchase Agreement, dated as of April 24, 2006, among Arch Receivable Company, LLC, Arch Coal Sales Company, Inc., Market Street Funding LLC, the financial institutions from time to time party thereto, as LC Participants, and PNC Bank, National Association, as Administrator on behalf of the Purchasers and as LC Bank (incorporated herein by reference to Exhibit 10.2 of the registrant s Quarterly Report on Form 10-Q for the period ended March 31, 2006).
10.32	Second Amendment to Receivables Purchase Agreement, dated as of June 23, 2006, among Arch Receivable Company, LLC, Arch Coal Sales Company, Inc., Market Street Funding LLC, the various financial institutions party thereto and PNC Bank, National Association, as administrator and as LC Bank (incorporated by reference to Exhibit 10.2 of the registrant s Current Report on Form 8-K filed on June 27, 2006).
10.33*	Form of Restricted Stock Unit Contract (incorporated herein by reference to Exhibit 10.5 to the registrant s Current Report on Form 8-K filed on February 24, 2006).
10.34*	Form of Performance Unit Contract (incorporated herein by reference to Exhibit 10.7 to the registrant s Current Report on Form 8-K filed on February 24, 2006).
10.35*	Form of Non-Qualified Stock Option Agreement.
12.1	Computation of ratio of earnings to combined fixed charges and preference dividends.
21.1	Subsidiaries of the registrant.
23.1	Consent of Ernst & Young LLP.

24.1	Power of Attorney.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Steven F. Leer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Robert J. Messey.
32.1	Section 1350 Certification of Steven F. Leer.
32.2	Section 1350 Certification of Robert J. Messey

* Denotes management contract or compensatory plan arrangements.