

ARCH COAL INC
Form 10-K/A
April 23, 2012

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

Form 10-K/A
(Amendment No. 1)

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

For the fiscal year ended December 31, 2011

Commission file number: 1-13105

Arch Coal, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

43-0921172
(I.R.S. Employer
Identification Number)

One CityPlace Drive, Ste. 300, St. Louis, Missouri
(Address of principal executive offices)

63141
(Zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	New York Stock Exchange Chicago Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant (excluding outstanding shares beneficially owned by directors, officers and treasury shares) as of June 30, 2011 was approximately \$5.6 billion.

On February 15, 2012, 213,292,678 shares of the company's common stock, par value \$0.01 per share, were outstanding.

Portions of the registrant's definitive proxy statement for the annual stockholders' meeting to be held on April 26, 2012 are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

Arch Coal, Inc. (the "Company") is filing this Amendment No. 1. (this "Amendment") to its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission on February 29, 2012 (the "Original Report"), for the sole purpose of correcting an error in Note 26 to the audited consolidated financial statements of the Company contained in the Original Report. The word "unaudited" inadvertently was used in the second sentence of the first paragraph in Note 26 to the audited consolidated financial statements of the Company contained in the Original Report, although the condensed consolidating financial information set forth in Note 26 was audited by the Company's independent registered public accounting firm. The Company is filing this Amendment solely to amend Note 26 to clarify that the condensed consolidating financial information set forth in Note 26 is audited. This Amendment amends and restates in their entirety Item 8 of Part II and Item 15 of Part IV of the Original Report.

No other amendments, modifications, updates or changes are being made to the Original Report other than as described above. This Amendment speaks as of the date of the filing of the Original Report. The Company has not taken into account any other events occurring after the filing of the Original Report which might have affected any disclosures in the Original Report, nor has the Company amended, modified, updated or otherwise changed any disclosures to reflect any subsequent events.

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PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements and consolidated financial statement schedule of Arch Coal, Inc. and subsidiaries are included in this Annual Report on Form 10-K beginning on page F-1.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Financial Statements

Reference is made to the index set forth on page F-1 of this report.

Financial Statement Schedules

Financial statement schedules listed under SEC rules but not included in this report are omitted because they are not applicable or the required information is provided in the notes to our consolidated financial statements.

Exhibits

Reference is made to the Exhibit Index beginning on page 3 of this report.

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Signatures

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

Arch Coal, Inc.

Steven F. Leer
Chairman and Chief Executive Officer
April 23, 2012

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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 to 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 to 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 to the registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2006).
2.4	Amendment No. 3 to the Purchase and Sale Agreement, dated as of August 29, 2007, by and between Arch Coal, Inc. and Magnum Coal Company (incorporated herein by reference to Exhibit 2.1 to the registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2007).
2.5	Agreement, dated as of March 27, 2008, by and between Arch Coal, Inc. and Magnum Coal Company (incorporated herein by reference to Exhibit 2.1 to the registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2008).
2.6	Amendment No. 1 to Agreement, dated as of February 5, 2009, by and between Arch Coal, Inc. and Magnum Coal Company (incorporated herein by reference to Exhibit 2.6 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
2.7	Agreement and Plan of Merger, dated as of May 2, 2011, by and among Arch Coal, Inc., Atlas Acquisition Corp. and International Coal Group, Inc. (incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on May 3, 2011).
+2.8	Amendment to Agreement and Plan of Merger, dated as of May 26, 2011 among Arch Coal, Inc., Atlas Acquisition Corp. and International Coal Group, Inc.
3.1	Restated Certificate of Incorporation of Arch Coal, Inc. (incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on May 5, 2006).
3.2	Arch Coal, Inc. Bylaws, as amended effective as of December 5, 2008 (incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on December 10, 2008).
4.1	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).
4.2	First Supplemental Indenture dated October 22, 2004 among Arch Western Finance, LLC, Arch Western Resources, LLC, Arch of Wyoming, LLC, Arch Western Bituminous Group, LLC, Mountain Coal Company, L.L.C., Thunder Basin Coal Company, L.L.C., Triton Coal Company, LLC, and The Bank of New York, as trustee (incorporated herein by reference to Exhibit 4.4 to the registrant's Current Report on Form 8-K filed on October 28, 2004).
4.3	Indenture, dated as of July 31, 2009 by and among Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on July 31, 2009).
4.4	First Supplemental Indenture, dated as of February 8, 2010, by and among Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2010).

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Exhibit	Description
4.5	Second Supplemental Indenture, dated as of March 12, 2010, by and among Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.5 to the registrant's Registration Statement on Form S-4 filed on April 7, 2010).
4.6	Third Supplemental Indenture, dated as of May 7, 2010, by and among Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.3 to the registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2010).
4.7	Fourth Supplemental Indenture, dated December 16, 2010, by and among Arch Coal West, LLC, Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.7 to the registrant's Annual Report on Form 10-K for the period ended December 31, 2010).
+4.8	Fifth Supplemental Indenture, dated as of June 24, 2011, by and among Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee.
+4.9	Sixth Supplemental Indenture, dated as of October 7, 2011, by and among Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee.
4.10	Indenture, dated as of August 9, 2010, by and between Arch Coal, Inc. and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on August 9, 2010).
4.11	First Supplemental Indenture, dated as of August 9, 2010, by and among Arch Coal, Inc., the subsidiary guarantors named therein, and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed on August 9, 2010).
4.12	Second Supplemental Indenture, dated as of December 16, 2010, by and among Arch Coal West, LLC, Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.7 to the registrant's Annual Report on Form 10-K for the period ended December 31, 2010).
+4.13	Third Supplemental Indenture, dated as of June 24, 2011, by and among Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee.
+4.14	Fourth Supplemental Indenture, dated as of October 7, 2011, by and among Arch Coal, Inc., the subsidiary guarantors named therein and U.S. Bank National Association, as trustee.
4.15	Indenture, dated as of June 14, 2011, by and among Arch Coal, Inc., the subsidiary guarantors named therein and UMB Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on June 14, 2011).
+4.16	First Supplemental Indenture, dated as of July 5, 2011, by and among Arch Coal, Inc., the subsidiary guarantors named therein and UMB Bank National Association, as trustee.
+4.17	Second Supplemental Indenture, dated as of October 7, 2011, by and among Arch Coal, Inc., the subsidiary guarantors named therein and UMB Bank National Association, as trustee.
4.18	Registration Rights Agreement, dated as of June 14, 2011, by and among Arch Coal, Inc., the subsidiary guarantors named therein, Morgan Stanley & Co. LLC, PNC Capital Markets LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc. and Citigroup Global Markets Inc. as representatives of the initial purchasers named therein (incorporated herein by reference to Exhibit 4.4 to the registrant's Current Report on Form 8-K filed on June 14, 2011).
10.1	Amended and Restated Credit Agreement, dated as of June 14, 2011, by and among the Company, the lenders party thereto, PNC Bank, National Association, as administrative agent and Bank of America, N.A., The Royal Bank of Scotland PLC and Citibank, N.A., as co-documentation agents (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the registrant on June 17, 2011).

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Exhibit	Description
10.2*	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).
10.3*	Form of Employment Agreement for Executive Officers of Arch Coal, Inc. (other than Steven F. Leer) (for employment agreements entered into up to 2011) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the registrant on November 16, 2006).
+10.4*	Form of Employment Agreement for Executive Officers of Arch Coal, Inc. (other than Steven F. Leer) (for employment agreements entered into beginning in 2011).
10.5	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).
10.6	Federal Coal Lease dated as of June 24, 1993 between the U.S. Department of the Interior and Southern Utah Fuel Company (incorporated herein by reference to Exhibit 10.17 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
10.7	Federal Coal Lease between the U.S. Department of the Interior and Utah Fuel Company (incorporated herein by reference to Exhibit 10.18 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
10.8	Federal Coal Lease dated as of July 19, 1997 between the U.S. Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
10.9	Federal Coal Lease dated as of January 24, 1996 between the U.S. Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
10.10	Federal Coal Lease Readjustment dated as of November 1, 1967 between the U.S. Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.21 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
10.11	Federal Coal Lease effective as of May 1, 1995 between the U.S. Department of the Interior and Mountain Coal Company (incorporated herein by reference to Exhibit 10.22 to 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 1, 1999 between the Department of the Interior and Ark Land Company (incorporated herein by reference to Exhibit 10.23 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
10.13	Federal Coal Lease dated as of October 1, 1999 between the U.S. Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999).
10.14	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).
10.15	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).
10.16	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).

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Exhibit	Description
10.17	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 (incorporated by reference to Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006).
10.18	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 (incorporated by reference to Exhibit 10.21 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006).
10.19	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 (incorporated by reference to Exhibit 10.22 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006).
10.20	State Coal Lease executed January 18, 2008 by and between The State of Utah, Thru School & Institutional Trust Lands Admin, as lessor, and Ark Land Company, as lessee, for lands located in Emery County, Utah (incorporated by reference to Exhibit 10.21 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
10.21	Form of Indemnity Agreement between Arch Coal, Inc. and Indemnatee (as defined therein) (incorporated herein by reference to Exhibit 10.15 to the Registration Statement on Form S-4 (Registration No. 333-28149) filed by the registrant on May 30, 1997).
10.22*	Arch Coal, Inc. Incentive Compensation Plan For Executive Officers (incorporated herein by reference to Appendix B to the proxy statement on Schedule 14A filed by the registrant on March 22, 2010).
10.23*	Arch Coal, Inc. Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on December 11, 2008).
10.24*	Arch Coal, Inc. 1997 Stock Incentive Plan (as amended and restated on October 21, 2010) (incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 27, 2010).
10.25*	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).
10.26*	Arch Coal, Inc. Outside Directors' Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.4 of the registrant's Current Report on Form 8-K filed on December 11, 2008).
10.27*	Arch Coal, Inc. Supplemental Retirement Plan (as amended on December 5, 2008) (incorporated herein by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on December 11, 2008).
10.28*	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).
10.29*	Form of Non-Qualified Stock Option Agreement (for stock options granted prior to February 21, 2008) (incorporated herein by reference to Exhibit 10.35 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006).
10.30*	Form of 2008 Restricted Stock Unit Contract for Messrs. Leer and Eaves (incorporated herein by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on February 27, 2008).
10.31*	Form of 2008 Non-Qualified Stock Option Agreement for Messrs. Leer and Eaves (incorporated herein by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on February 27, 2008).
10.32*	Form of Non-Qualified Stock Option Agreement (for stock options granted on or after February 21, 2008) (incorporated herein by reference to Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on February 27, 2008).

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Exhibit	Description
10.33*	Form of Performance Unit Contract (incorporated herein by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on February 23, 2009).
10.34*	Form of Director Indemnity Agreement (incorporated herein by reference to Exhibit 10.40 to the registrant's Annual Report on Form 10-K for the period ended December 31, 2010).
10.35	Amended and Restated Receivables Purchase Agreement, dated as of February 24, 2020, 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 10.2 to the registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2010).
10.36	First Amendment to Amended and Restated Receivables Purchase Agreement, dated January 31, 2011, among Arch Receivable Company, LLC, Arch Coal Sales Company, Inc. and the other parties thereto (incorporated by reference to Exhibit 10.41 to the registrant's Annual Report on Form 10-K for the period ended December 31, 2010).
10.37	Second Amendment to Amended and Restated Receivables Purchase Agreement dated June 15, 2011 (incorporated by reference to Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2011).
+10.38	Third Amendment to Amended and Restated Receivables Purchase Agreement dated November 21, 2011, among Arch Receivable Company, LLC, Arch Coal Sales Company, Inc. and the other parties thereto.
+10.39	Fourth Amendment to Amended and Restated Receivables Purchase Agreement dated December 13, 2011, among Arch Receivable Company, LLC, Arch Coal Sales Company, Inc. and the other parties thereto.
+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.
+23.2	Consent of Weir International, Inc.
+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 John T. Drexler.
32.1	Section 1350 Certification of Steven F. Leer.
32.2	Section 1350 Certification of John T. Drexler.
+95	Mine Safety Disclosure Exhibit.
101	Interactive Data File (Form 10-K for the year ended December 31, 2011 furnished in XBRL).

* Denotes management contract or compensatory plan arrangements.

+ Previously filed as an exhibit to Arch Coal, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed on February 29, 2012.

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FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Arch Coal, Inc. and subsidiaries and reports of independent registered public accounting firm follow.

Index to Consolidated Financial Statements

<u>Reports of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Report of Management and Management's Report on Internal Control over Financial Reporting</u>	<u>F-4</u>
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<u>Consolidated Balance Sheets at December 31, 2011 and 2010</u>	<u>F-6</u>
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Arch Coal, Inc.

We have audited the accompanying consolidated balance sheets of Arch Coal, Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arch Coal, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Arch Coal, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 29, 2012, expressed an unqualified opinion thereon.

St. Louis, Missouri
February 29, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Arch Coal, Inc.

We have audited Arch Coal, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Report of Management and Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of International Coal Group, Inc. which is included in the 2011 consolidated financial statements of Arch Coal, Inc. and constituted \$3.8 billion and \$3.1 billion of total and net assets, respectively, as of December 31, 2011 and \$606.9 million and \$14.6 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Arch Coal, Inc. also did not include an evaluation of the internal control over financial reporting of International Coal Group, Inc.

In our opinion, Arch Coal, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Arch Coal, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011, and our report dated February 29, 2011, expressed an unqualified opinion thereon.

St. Louis, Missouri
February 29, 2012

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REPORT OF MANAGEMENT

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

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

The Audit Committee of the Board of Directors, comprised of independent directors, meets regularly with management, the internal auditors, and the independent auditors to discuss matters relating to financial reporting, internal accounting control, and the nature, extent and results of the audit effort. The independent auditors and internal auditors have full and free access to the Audit Committee, with and without management present.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Arch Coal, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f). Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the criteria set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that the Company's internal control over financial reporting is effective as of December 31, 2011. On June 15, 2011, the Company acquired International Coal Group, Inc. (ICG), whose total assets and revenues constitute approximately 14% and 37%, respectively, of the amounts reflected in the accompanying consolidated financial statements for the year ended December 31, 2011. As permitted by the guidance the SEC, we have excluded ICG from our annual assessment of the effectiveness of internal control over financial reporting for the year ended December 31, 2011, the year of acquisition.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the Company's internal control over financial reporting.

Steven F. Leer
*Chairman and Chief
Executive Officer*

John T. Drexler
*Senior Vice President and Chief
Financial Officer*
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Table of Contents**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31		
	2011	2010	2009
	(In thousands, except per share data)		
REVENUES	\$ 4,285,895	\$ 3,186,268	\$ 2,576,081
COSTS, EXPENSES AND OTHER			
Cost of sales	3,267,910	2,395,812	2,070,715
Depreciation, depletion and amortization	466,587	365,066	301,608
Amortization of acquired sales contracts, net	(22,069)	35,606	19,623
Selling, general and administrative expenses	119,056	118,177	97,787
Change in fair value of coal derivatives and coal trading activities, net	(2,907)	8,924	(12,056)
Acquisition and transition costs	54,676		13,726
Gain on Knight Hawk transaction		(41,577)	
Other operating income, net	(10,934)	(19,724)	(39,036)
	3,872,319	2,862,284	2,452,367
Income from operations	413,576	323,984	123,714
Interest expense, net:			
Interest expense	(230,186)	(142,549)	(105,932)
Interest income	3,309	2,449	7,622
	(226,877)	(140,100)	(98,310)
Other non-operating expense:			
Bridge financing costs related to ICG	(49,490)		
Net loss resulting from early retirement of debt	(1,958)	(6,776)	
	(51,448)	(6,776)	
Income before income taxes	135,251	177,108	25,404
Provision for (benefit from) income taxes	(7,589)	17,714	(16,775)
Net income	142,840	159,394	42,179
Less: Net income attributable to noncontrolling interest	(1,157)	(537)	(10)
Net income attributable to Arch Coal, Inc.	\$ 141,683	\$ 158,857	\$ 42,169
EARNINGS PER COMMON SHARE			
Basic earnings per common share	\$ 0.75	\$ 0.98	\$ 0.28
Diluted earnings per common share	\$ 0.74	\$ 0.97	\$ 0.28
Basic weighted average shares outstanding	190,086	162,398	150,963
Diluted weighted average shares outstanding	190,905	163,210	151,272
Dividends declared per common share	\$ 0.43	\$ 0.39	\$ 0.36

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

Table of Contents**CONSOLIDATED BALANCE SHEETS**

	December 31	
	2011	2010
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 138,149	\$ 93,593
Restricted cash	10,322	
Trade accounts receivable	380,595	208,060
Other receivables	88,584	44,260
Inventories	377,490	235,616
Prepaid royalties	21,944	33,932
Deferred income taxes	42,051	
Coal derivative assets	13,335	15,191
Other	110,304	104,262
Total current assets	1,182,774	734,914
Property, plant and equipment:		
Coal lands and mineral rights	6,578,430	2,523,172
Plant and equipment	3,225,985	2,397,444
Deferred mine development	1,064,279	872,329
	10,868,694	5,792,945
Less accumulated depreciation, depletion and amortization	(2,919,544)	(2,484,053)
Property, plant and equipment, net	7,949,150	3,308,892
Other assets:		
Prepaid royalties	86,626	66,525
Goodwill	596,103	114,963
Deferred income taxes		361,556
Equity investments	225,605	177,451
Other	173,701	116,468
Total other assets	1,082,035	836,963
Total assets	\$ 10,213,959	\$ 4,880,769
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 383,782	\$ 198,216
Coal derivative liabilities	7,828	4,947
Deferred income taxes		7,775
Accrued expenses and other current liabilities	348,207	245,411
Current maturities of debt and short-term borrowings	280,851	70,997
Total current liabilities	1,020,668	527,346
Long-term debt	3,762,297	1,538,744
Asset retirement obligations	446,784	334,257
Accrued pension benefits	48,244	49,154
Accrued postretirement benefits other than pension	42,309	37,793
Accrued workers' compensation	71,948	35,290
Deferred income taxes	976,753	
Other noncurrent liabilities	255,382	110,234
Total liabilities	6,624,385	2,632,818

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Redeemable noncontrolling interest	11,534	10,444
Stockholders' equity:		
Common stock, \$0.01 par value, authorized 260,000 shares, issued 213,183 and 164,117 shares at December 31, 2011 and 2010, respectively	2,136	1,645
Paid-in capital	3,015,349	1,734,709
Treasury stock, 1,512 shares at December 31, 2011 and 2010, at cost	(53,848)	(53,848)
Retained earnings	622,353	561,418
Accumulated other comprehensive loss	(7,950)	(6,417)
Total stockholders' equity	3,578,040	2,237,507
Total liabilities and stockholders' equity	\$ 10,213,959	\$ 4,880,769

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Years Ended December 31, 2011

	Common Stock	Paid-In Capital	Treasury Stock, at Cost	Retained Earnings	Accumulated Other Comprehensive Loss	Total
(In thousands, except per share data)						
BALANCE AT JANUARY 1, 2009	\$ 1,447	\$ 1,381,496	\$ (53,848)	\$ 478,734	\$ (79,096)	\$ 1,728,733
Comprehensive income:						
Net income attributable to Arch Coal, Inc.				42,169		42,169
Pension, postretirement and other post-employment benefits					12,176	12,176
Net amount reclassified to income					718	718
Unrealized losses on available-for- sale securities					(86)	(86)
Unrealized gains on derivatives					2,436	2,436
Net amount reclassified to income					43,999	43,999
Total comprehensive income						101,412
Dividends on common shares (\$0.36 per share)				(54,969)		(54,969)
Issuance of 19,550 common shares	196	326,256				326,452
Issuance of 45 shares of common stock under the stock incentive plan restricted stock and restricted stock units	0	0				0
Issuance of 13 shares of common stock under the stock incentive plan stock options including income tax benefits	0	84				84
Employee stock-based compensation expense		13,394				13,394
BALANCE AT DECEMBER 31, 2009	1,643	1,721,230	(53,848)	465,934	(19,853)	2,115,106
Comprehensive income:						
Net income attributable to Arch Coal, Inc.				158,857		158,857
Pension, postretirement and other post-employment benefits					9,750	9,750
Net amount reclassified to income					110	110
Unrealized gains on available-for- sale securities					1,841	1,841
Unrealized gains on derivatives					221	221
Net amount reclassified to income					1,514	1,514
Total comprehensive income						172,293
Dividends on common shares (\$0.39 per share)				(63,373)		(63,373)
Issuance of 9 shares of common stock under the stock incentive plan restricted stock and restricted stock units, net of forfeitures	0	0				0
Issuance of 155 shares of common stock under the stock incentive plan stock options including income tax benefits	2	1,762				1,764
Employee stock-based compensation expense		11,717				11,717
BALANCE AT DECEMBER 31, 2010	1,645	1,734,709	(53,848)	561,418	(6,417)	2,237,507
Comprehensive income:						
Net income attributable to Arch Coal, Inc.				141,683		141,683
Pension, postretirement and other post-employment benefits					4,331	4,331
Net amount reclassified to income					1,672	1,672
Unrealized gains on available-for- sale securities					114	114
Unrealized gains on derivatives					2,913	2,913
Net amount reclassified to income					(10,563)	(10,563)
Total comprehensive income						140,150
Dividends on common shares (\$0.43 per share)				(80,748)		(80,748)
Issuance of 48,705 common shares	487	1,267,446				1,267,933
Issuance of 162 shares of common stock under the stock incentive plan restricted stock and restricted stock units, net of forfeitures	2	(2)				0

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Issuance of 199 shares of common stock under the stock incentive plan	2	2,314	2,316
Employee stock-based compensation expense		10,882	10,882
BALANCE AT DECEMBER 31, 2011	\$ 2,136	\$ 3,015,349	\$ (53,848) \$ 622,353 \$ (7,950) \$ 3,578,040

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

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Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31		
	2011	2010	2009
	(In thousands)		
OPERATING ACTIVITIES			
Net income	\$ 142,840	\$ 159,394	\$ 42,179
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation, depletion and amortization	466,587	365,066	301,608
Amortization of acquired sales contracts, net	(22,069)	35,606	19,623
Bridge financing costs related to ICG	49,490		
Write down of assets acquired from ICG	7,316		
Prepaid royalties expensed	34,842	34,605	29,746
Employee stock-based compensation	10,882	11,717	13,394
Amortization relating to financing activities	14,067	10,398	6,741
Gain on Knight Hawk transaction		(41,577)	
Net loss resulting from early retirement of debt	1,958	6,776	
Changes in operating assets and liabilities:			
Receivables	(74,914)	(7,287)	47,794
Inventories	(50,900)	5,160	(28,518)
Coal derivative assets and liabilities	6,079	9,554	32,266
Accounts payable, accrued expenses and other current liabilities	52,191	87,807	(44,764)
Income taxes payable/receivable	(21,759)	(1,364)	2,100
Deferred income taxes	10,519	(12,405)	(34,668)
Asset retirement obligations	3,868	23,997	18,741
Other	11,245	9,700	(23,262)
Cash provided by operating activities	642,242	697,147	382,980
INVESTING ACTIVITIES			
Acquisitions of businesses, net of cash acquired	(2,894,339)		(768,819)
Decrease in restricted cash	5,167		
Capital expenditures	(540,936)	(314,657)	(323,150)
Proceeds from dispositions of property, plant and equipment	25,887	330	825
Additions to prepaid royalties	(29,957)	(27,355)	(26,755)
Purchases of investments and advances to affiliates	(61,909)	(46,185)	(10,925)
Consideration paid related to prior business acquisitions	(829)	(1,262)	(4,767)
Reimbursement of deposits on equipment			3,209
Cash used in investing activities	(3,496,916)	(389,129)	(1,130,382)
FINANCING ACTIVITIES			
Proceeds from the issuance of senior notes	2,000,000	500,000	584,784
Proceeds from the issuance of common stock, net	1,267,933		326,452
Payments to retire debt	(605,178)	(505,627)	
Net increase (decrease) in borrowings under lines of credit and commercial paper program	424,396	(196,549)	(85,815)
Net proceeds from (payments on) other debt	5,334	82	(2,986)
Debt financing costs	(114,823)	(12,751)	(29,659)
Dividends paid	(80,748)	(63,373)	(54,969)
Issuance of common stock under incentive plans	2,316	1,764	84
Contribution from noncontrolling interest		891	
Cash provided by (used in) financing activities	2,899,230	(275,563)	737,891
Increase (decrease) in cash and cash equivalents	44,556	32,455	(9,511)
Cash and cash equivalents, beginning of year	93,593	61,138	70,649
Cash and cash equivalents, end of year	\$ 138,149	\$ 93,593	\$ 61,138

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the year for interest	\$	213,697	\$	134,866	\$	76,801
Cash paid during the year for income taxes	\$	7,094	\$	36,765	\$	17,482

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Arch Coal, Inc. and its subsidiaries and controlled entities ("the Company"). The Company produces coal from surface and underground mines located throughout the United States for sale to domestic and international customers as steam coal to power plants and industrial facilities and metallurgical coal used in steel production. The Company expanded further into metallurgical coal markets with the acquisition of International Coal Group, Inc. ("ICG") on June 15, 2011, as described in Note 3, "Business Combinations." The Company operates 23 mining complexes in West Virginia, Kentucky, Maryland, Virginia, Illinois, Wyoming, Colorado and Utah. All subsidiaries (except as noted below) are wholly-owned. Intercompany transactions and accounts have been eliminated in consolidation.

The Company owns a 99% membership interest in a joint venture named Arch Western Resources, LLC ("Arch Western"), which operates coal mines in Wyoming, Colorado and Utah. The Company also acts as the managing member of Arch Western.

Accounting Pronouncements

There were no accounting pronouncements whose adoption had, or is expected to have, a material impact on the Company's consolidated financial statements.

Accounting Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost. Cash equivalents consist of highly-liquid investments with an original maturity of three months or less when purchased. At December 31, 2011 and 2010, the carrying amounts of cash and cash equivalents approximate their fair value.

Allowance for Uncollectible Receivables

The Company establishes an allowance for uncollectible receivables for the amounts of trade accounts receivable and other receivables that are not expected to be collected, based on past collection history, the economic environment and specified risks identified in the receivables portfolio. Receivables are considered past due if the full payment is not received by the contractual due date. At December 31, 2011 and 2010, there was either no allowance or an insignificant allowance for uncollectible receivables.

Inventories

Coal and supplies inventories are valued at the lower of average cost or market. Coal inventory costs include labor, supplies, equipment costs, transportation costs incurred prior to the transfer of title to customers and operating overhead. The costs of removing overburden, called stripping costs, incurred during the production phase of the mine are considered variable production costs and are included in the cost of the coal extracted during the period the stripping costs are incurred.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investments and Membership Interests in Joint Ventures

Investments and membership interests in joint ventures are accounted for under the equity method of accounting if the Company has the ability to exercise significant influence, but not control, over the entity. The Company's share of the entity's income is reflected in other operating income, net in the consolidated statements of income. Information about investment activity is provided in Note 8, "Equity Investments and Membership Interests in Joint Ventures."

Marketable equity securities held by the Company that do not qualify for equity method accounting are classified as available-for-sale and are recorded at their fair value on the balance sheet. Unrealized gains and losses on these investments are recorded in other comprehensive income. A decline in the value of an investment that is considered other-than-temporary is recognized in income.

Prepaid Royalties

Leased mineral rights are often acquired through royalty payments. When royalty payments represent prepayments recoupable against future production, they are recorded as a prepaid asset, with amounts expected to be recouped within one year classified as current. When the coal is mined under these leases the royalties are recouped and the prepayment is charged to cost of sales.

Acquired Sales Contracts

Coal supply agreements (sales contracts) acquired in a business combination are capitalized at their fair value and amortized over the tons of coal shipped during the term of the contract. The fair value of a sales contract is determined by discounting the cash flows attributable to the difference between the contract price and the prevailing forward prices for the tons under contract at the date of acquisition. See Note 6, "Acquired Sales Contracts" for further information related to the Company's acquired sales contracts.

Exploration Costs

Costs to acquire permits for exploration activities are capitalized. Drilling and other costs related to locating coal deposits and evaluating the economic viability of such deposits are expensed as incurred.

Property, Plant and Equipment

Plant and Equipment

Plant and equipment are recorded at cost. Interest costs incurred during the construction period for major asset additions are capitalized. Expenditures that extend the useful lives of existing plant and equipment or increase the productivity of the asset are capitalized. The cost of maintenance and repairs that do not extend the useful life or increase the productivity of the asset are expensed as incurred.

Preparation plants and loadouts are depreciated using the units-of-production method over the estimated recoverable reserves, subject to a minimum level of depreciation. Other plant and equipment are depreciated principally using the straight-line method over the estimated useful lives of the assets, limited by the remaining life of the mine. The useful lives of mining equipment, including longwalls, draglines and shovels, range from 5 to 32 years. The useful lives of buildings and leasehold improvements generally range from 10 to 30 years.

Deferred Mine Development

Costs of developing new mines or significantly expanding the capacity of existing mines are capitalized and amortized using the units-of-production method over the estimated recoverable reserves that are associated with the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

property being benefited. Costs may include construction permits and licenses; mine design; construction of access roads, shafts, slopes and main entries; and removing overburden to access reserves in a new pit. Additionally, deferred mine development includes the asset cost associated with asset retirement obligations.

Coal Lands and Mineral Rights

Rights to coal reserves may be acquired directly through governmental or private entities. A significant portion of the Company's coal reserves are controlled through leasing arrangements. The net book value of the Company's leased coal interests was \$1.6 billion at December 31, 2011 and 2010. Payments to acquire royalty lease agreements and lease bonus payments are capitalized as a cost of the underlying mineral reserves and depleted over the life of proven and probable reserves. Coal lease rights are depleted using the units-of-production method, and the rights are assumed to have no residual value. Lease agreements are generally long-term in nature (original terms range from 10 to 50 years), and substantially all of the leases contain provisions that allow for automatic extension of the lease term providing certain requirements are met. See Note 2, "Property Transactions" for further disclosures on coal lease agreements.

Impairment

If facts and circumstances suggest that the carrying value of a long-lived asset or asset group may not be recoverable, the asset or asset group is reviewed for potential impairment. If this review indicates that the carrying amount of the asset will not be recoverable through projected undiscounted cash flows generated by the asset and its related asset group over its remaining life, then an impairment loss is recognized by reducing the carrying value of the asset to its fair value. The Company may, under certain circumstances, idle mining operations in response to market conditions or other factors. Because an idling is not a permanent closure, it is not considered an automatic indicator of impairment.

Goodwill

In a business combination, goodwill represents the excess of the purchase price over the fair value assigned to the net tangible and identifiable intangible assets acquired. The Company tests goodwill for impairment annually as of the beginning of the fourth quarter, or when circumstances indicate a possible impairment may exist. If the results of the testing indicate that the carrying amount of a reporting unit exceeds the fair value of the reporting unit, the fair value of goodwill must be calculated. An impairment loss generally would be recognized when the carrying amount of goodwill exceeds the implied fair value of goodwill, determined by subtracting the fair value of the other assets and liabilities associated with the reporting unit from the total fair value of the reporting unit. The fair value of a reporting unit is determined using a discounted cash flow ("DCF") technique. A number of significant assumptions and estimates are involved in the application of the DCF analysis to forecast operating cash flows, including the discount rate and projections of selling prices and costs to produce.

Deferred Financing Costs

The Company capitalizes costs incurred in connection with new borrowings, the establishment or enhancement of credit facilities and the issuance of debt securities. These costs are amortized as an adjustment to interest expense over the life of the borrowing or term of the credit facility using the interest method. The unamortized balance of deferred financing costs was \$90.5 million and \$37.6 million at December 31, 2011 and 2010, respectively. Amounts classified as current were \$15.8 million and \$9.6 million at December 31, 2011 and 2010, respectively. Current amounts are recorded in other current assets and noncurrent amounts are recorded in other assets in the accompanying consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition

Revenues include sales to customers of coal produced at Company operations and coal purchased from third parties. The Company recognizes revenue at the time risk of loss passes to the customer at contracted amounts. Transportation costs are included in cost of sales and amounts billed by the Company to its customers for transportation are included in revenues.

Other Operating Income, Net

Other operating income, net in the accompanying consolidated statements of income reflects income and expense from sources other than physical coal sales, including: bookouts, the practice of offsetting purchase and sale contracts for shipping convenience purposes, and contract settlements; royalties earned from properties leased to third parties; income from equity investments; gains and losses from dispositions of assets; and realized gains and losses on derivatives that do not qualify for hedge accounting and are not held for trading purposes.

Asset Retirement Obligations

The Company's legal obligations associated with the retirement of long-lived assets are recognized at fair value at the time the obligations are incurred. Accretion expense is recognized through the expected settlement date of the obligation. Obligations are incurred at the time development of a mine commences for underground and surface mines or construction begins for support facilities, refuse areas and slurry ponds. The obligation's fair value is determined using a DCF technique and is based upon permit requirements and various estimates and assumptions that would be used by market participants, including estimates of disturbed acreage, reclamation costs and assumptions regarding equipment productivity. Upon initial recognition of a liability, a corresponding amount is capitalized as part of the carrying value of the related long-lived asset.

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. Any difference between the recorded obligation and the actual cost of reclamation is recorded in profit or loss in the period the obligation is settled. See additional discussion in Note 14, "Asset Retirement Obligations."

Derivative Instruments

The Company generally utilizes derivative instruments to manage exposures to commodity prices. Additionally, the Company may hold certain coal derivative instruments for trading purposes. Derivative financial instruments are recognized in the balance sheet at fair value. Certain coal contracts may meet the definition of a derivative instrument, but because they provide for the physical purchase or sale of coal in quantities expected to be used or sold by the Company over a reasonable period in the normal course of business, they are not recognized on the balance sheet.

Certain derivative instruments are designated as the hedge instrument in a hedging relationship. In a fair value hedge, the Company hedges the risk of changes in the fair value of a firm commitment, typically a fixed-price coal sales contract. Changes in both the hedged firm commitment and the fair value of a derivative used as a hedge instrument in a fair value hedge are recorded in earnings. In a cash flow hedge, the Company hedges the risk of changes in future cash flows related to a forecasted purchase or sale. Changes in the fair value of the derivative instrument used as a hedge instrument in a cash flow hedge are recorded in other comprehensive income. Amounts in other comprehensive income are reclassified to earnings when the hedged transaction affects earnings and are classified in a manner consistent with the transaction being hedged. The Company formally documents the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

relationships between hedging instruments and the respective hedged items, as well as its risk management objectives for hedge transactions.

The Company evaluates the effectiveness of its hedging relationships both at the hedge's inception and on an ongoing basis. Any ineffective portion of the change in fair value of a derivative instrument used as a hedge instrument in a fair value or cash flow hedge is recognized immediately in earnings. The ineffective portion is based on the extent to which exact offset is not achieved between the change in fair value of the hedge instrument and the cumulative change in expected future cash flows on the hedged transaction from inception of the hedge in a cash flow hedge or the change in the fair value. Ineffectiveness was insignificant for the years ended December 31, 2011, 2010 and 2009. See Note 10, "Derivative Instruments" for further disclosures related to the Company's derivative instruments.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly hypothetical transaction between market participants at a given measurement date. Valuation techniques used must maximize the use of observable inputs and minimize the use of unobservable inputs. See Note 13, "Fair Values of Financial Instruments" for further disclosures related to the Company's fair value estimates.

Income Taxes

Deferred income taxes are provided for temporary differences arising from differences between the financial statement amount and tax basis of assets and liabilities existing at each balance sheet date using enacted tax rates anticipated to be in effect when the related taxes are expected to be paid or recovered. A valuation allowance is established if it is more likely than not that a deferred tax asset will not be realized. In determining the need for a valuation allowance, the Company considers projected realization of tax benefits based on expected levels of future taxable income, available tax planning strategies and its overall deferred tax position. See Note 12, "Taxes" for further disclosures about income taxes.

Benefit Plans

The Company has non-contributory defined benefit pension plans covering most of its salaried and hourly employees. Benefits are generally based on the employee's age and compensation. The Company also currently provides certain postretirement medical and life insurance coverage for eligible employees. The cost of providing these benefits are determined on an actuarial basis and accrued over the employee's period of active service.

The Company recognizes the overfunded or underfunded status of these plans as determined on an actuarial basis on the balance sheet and the changes in the funded status are recognized in other comprehensive income. See Note 16, "Employee Benefit Plans" for additional disclosures relating to these obligations.

Stock-Based Compensation

The compensation cost of all stock-based awards is determined based on the grant-date fair value of the award, and is recognized in income over the requisite service period. The grant-date fair value of option awards is determined using a Black-Scholes option pricing model. Compensation cost for an award with performance conditions is accrued if it is probable that the conditions will be met. See further discussion in Note 18, "Stock Based Compensation and Other Incentive Plans."

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Property Transactions**

On December 14, 2011, the Company was awarded a federal coal lease for the South Hilight tract in Wyoming for a price of \$300.0 million. The bid price will be paid in five equal installments, with the first one made in December 2011. The coal lease will give the Company the right to mine an estimated 222 million tons of coal reserves. The South Hilight tract is contiguous to the Company's Black Thunder mining complex.

On November 12, 2009, the Company entered into a lease of coal reserves and other coal resources from Great Northern Properties Limited Partnership in Montana for \$73.1 million. On March 18, 2010, the Company was awarded a Montana state coal lease for the Otter Creek tracts for a price of \$85.8 million. These two transactions gave the Company the right to mine approximately 1.4 billion tons of coal reserves in the Montana's Otter Creek area.

The total of the Company's future lease bonus payments due are \$23.4 million in 2012, \$83.4 million in 2013, \$67.3 million in 2014, \$60.0 million in 2015 and \$60.0 million in 2016.

3. Business Combinations

On June 15, 2011, the Company completed its acquisition of ICG, a leading coal producer, adding 12 mining complexes in Appalachia, one complex in the Illinois Basin and one mine under development in Appalachia, along with other coal reserves not currently in development. The Company acquired all of ICG's outstanding shares of common stock. The acquisition was financed with the proceeds from the Company's sale of common stock and issuance of senior notes. See Note 5, "Debt and Financing Arrangements" and Note 17, "Capital Stock" for further information about these transactions.

The following table summarizes the consideration paid for ICG and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	(In millions)
Consideration paid, net of cash acquired	\$ 2,894.4
Recognized amounts of net tangible and intangible assets acquired and liabilities assumed:	
Restricted cash	15.5
Receivables	113.2
Inventories	91.0
Net property, plant and equipment, including mineral rights	4,582.6
Goodwill	480.3
Other assets	35.9
Accounts payable	(86.0)
Other accrued expenses and current liabilities	(59.1)
Debt	(604.8)
Litigation accrual	(108.9)
Accrued postretirement benefits	(47.7)
Asset retirement obligation	(112.7)
Coal supply agreements, net	(91.0)
Deferred income taxes, net	(1,278.9)
Other	(35.0)
Net tangible and intangible assets acquired	\$ 2,894.4

The Company is awaiting the receipt of the final valuation report from a third party valuation services firm. As a result the fair values for mineral rights, goodwill and deferred taxes may not be final.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The revenues and income before income taxes related to the acquired operations reflected in the consolidated statements of income since the date of acquisition were \$606.9 million and \$14.6 million, respectively.

The following unaudited pro forma information has been prepared for illustrative purposes and assumes that the business combination occurred on January 1, 2010. The unaudited pro forma results have been prepared based upon ICG's historical results and estimates of the ongoing effects of the transactions that the Company believes are reasonable and supportable. The results are not necessarily reflective of the consolidated results of operations had the acquisition actually occurred on January 1, 2010, nor are they indicative of future operating results.

The unaudited supplemental pro forma financial information of the combined entity follows:

	Year Ended December 31,	
	2011	2010
	(In millions)	
Total revenues		
As reported	\$ 4,285.9	\$ 3,186.3
Pro forma	\$ 4,825.6	\$ 4,299.9
Net income attributable to Arch Coal		
As reported	\$ 141.7	\$ 158.9
Pro forma	\$ 113.5	\$ (1.2)

The pro forma income before income taxes includes adjustments to operating costs to reflect the new basis in assets acquired and interest expense to reflect the debt incurred to finance the acquisition. In addition, the following pre-tax costs and expenses reflected in the accompanying consolidated statement of income for the year ended December 31, 2011 are reflected in the pro forma results above as of January 1, 2010.

	(In millions)
Costs of completing the acquisition	\$ 31.6
Severance costs	15.8
Write off of acquired assets	7.3
Bridge financing fees	49.5
	\$ 104.2

Severance costs represent both change in control payments to executives and severance for employees terminated after the acquisition. The acquired asset write-off relates to a preparation plant and loadout of an acquired ICG mining operation. The acquired operation was combined with an existing operation of the Company, and utilizes an existing facility.

Synergies from the acquisition are not reflected in the pro forma results.

In conjunction with the acquisition, the Company had \$10.3 million of restricted cash at December 31, 2011 to fund change in control payments for executives.

On October 1, 2009 the Company purchased the Jacobs Ranch mining operations for a purchase price of \$768.8 million. The acquired operations included approximately 345 million tons of coal reserves. The acquired mining operations were integrated into the Company's Black Thunder mining operations in its Powder River Basin segment. To finance the acquisition, the Company sold shares of its common stock and issued senior notes. See Note 5, "Debt and Financing Arrangements" and Note 17 "Capital Stock" for further information about these transactions.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Goodwill**

Changes in the carrying value of goodwill for the years ended December 31, 2011, 2010 and 2009 are as follows:

	(In thousands)
Balance at January 1, 2009	\$ 46,832
Consideration paid related to prior business acquisitions	4,767
Acquisition of Jacobs Ranch	62,102
Balance at December 31, 2009	113,701
Consideration paid related to prior business acquisitions	1,262
Balance at December 31, 2010	114,963
Consideration paid related to prior business acquisitions	829
Acquisition of ICG	480,311
Balance at December 31, 2011	\$ 596,103

Goodwill of \$115.8 million has been allocated to the Company's Powder River Basin segment and goodwill of \$480.3 million has allocated to the Company's Appalachia segment for impairment testing purposes. The goodwill recognized in the ICG acquisition relates to the impact of volatility in the pricing for metallurgical coal and geological and technical efforts prior to the acquisition relating to the mine development project in progress. The goodwill related to the acquisition of ICG is not expected to be deductible for income tax purposes; however, the remaining goodwill is expected to be deductible. The consideration paid related to prior business acquisitions represents ongoing adjustments to the purchase price of a previous acquisition resulting from a 2008 tax settlement.

5. Debt and Financing Arrangements

Debt consists of the following:

	December 31,	
	2011	2010
	(In thousands)	
Commercial paper	\$	\$ 56,904
Indebtedness to banks under credit facilities	481,300	
6.75% senior notes (\$450.0 million face value) due July 1, 2013	450,971	451,618
8.75% senior notes (\$600.0 million face value) due August 1, 2016	588,974	587,126
7.00% senior notes due June 15, 2019 at par	1,000,000	
7.25% senior notes due October 1, 2020 at par	500,000	500,000
7.25% senior notes due June 15, 2021 at par	1,000,000	
Other	21,903	14,093
	4,043,148	1,609,741
Less current maturities of debt and short-term borrowings	280,851	70,997
Long-term debt	\$ 3,762,297	\$ 1,538,744

The current maturities of debt include contractual maturities, as well as amounts borrowed that are supported by credit facilities that have a term of less than one year and amounts borrowed under credit facilities with terms longer than one year that the Company does not intend to refinance on a long-term basis, based on cash projections and management's plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ICG Debt

Upon the closing of the ICG acquisition, the Company gave a 30-day redemption notice to the Trustee of ICG's 9.125% senior notes and legally discharged its obligation under the 9.125% senior notes by depositing \$260.7 million with the Trustee to redeem the debt. On July 14, 2011, all of the outstanding 9.125% senior notes were redeemed at an aggregate price of \$251.4 million, including the required make-whole premium, plus accrued interest of \$5.2 million, and the remainder of the deposit was returned to the Company.

At the acquisition date, ICG's 4.00% convertible senior notes with a fair value of \$298.5 million and 9.00% convertible senior notes with a fair value of \$1.7 million ("convertible notes") became convertible into cash, pursuant to the amended indentures governing the convertible notes, at a calculated conversion rate of \$2,614.6848 for each \$1,000 in principal amount surrendered for conversion for the 4.00% convertible notes and \$2,392.73414 for the 9.00% convertible notes for conversions occurring prior to August 17, 2011.

At the acquisition date, other ICG debt had a fair value of approximately \$54.0 million and consisted mainly of equipment notes and insurance notes payable.

The Company recognized a net loss of \$2.0 million during the year ended December 31, 2011 on the early extinguishment of ICG's debt, including the conversions of the 4.00% and 9.00% convertible notes described above. The remaining amounts outstanding under the convertible notes and other ICG debt is included in "other" in the debt table above.

Credit Facilities

On June 14, 2011, the Company amended and restated its secured credit facility to allow for up to \$2.0 billion in borrowings. The Company paid and deferred \$21.1 million in financing fees related to the amendment of this agreement. Borrowings under this 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. The credit facility has a five-year term that expires on June 14, 2016 and is secured by substantially all of the Company's assets as well as its ownership interests in substantially all of its subsidiaries, excluding its ownership interests in Arch Western and its subsidiaries. Commitment fees of 0.50% per annum are payable on the average unused daily balance of the revolving credit facility. The weighted-average interest rate of the Company's outstanding borrowings under the credit facility was 3.04% at December 31, 2011. Financial covenant requirements may restrict the amount of unused capacity available to the Company for borrowings and letters of credit.

The Company maintains an accounts receivable securitization program under which 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 vary with its leverage ratio, as defined under the program. The Company entered into an amendment to its accounts receivable program in November of 2011 to increase the eligible receivables pool, as defined by the agreement, to include receivables generated from the acquired ICG subsidiaries. On December 13, 2011, the Company entered into another amendment to its accounts receivable securitization program to increase the size of the program to allow for aggregate borrowings and letters of credit of up to \$250.0 million from \$175.0 million. The total aggregate borrowings and letters of credit are limited by eligible accounts receivable, as defined under the terms of the agreement. The credit facility supporting the borrowings under the program is subject to renewal annually, and expires on December 11, 2012. The interest rate in effect as of December 31, 2011 was 0.73%.

On June 14, 2011, the Company terminated its commercial paper placement program and the supporting credit facility.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's average borrowing level under these programs was approximately \$234.2 million and \$132.0 million for the years ended December 31, 2011 and 2010, respectively.

Availability

As of December 31, 2011, the Company had \$375.0 million of borrowings outstanding under the amended and restated secured credit facility and \$106.3 million of borrowings outstanding under its accounts receivable securitization program. The Company also had \$146.6 million of outstanding letters of credit at December 31, 2011. As of December 31, 2011, the Company had availability of \$901.4 million under all lines of credit, as limited by customary financial covenants that may limit the Company's total debt based on defined earnings measurements.

2013 Senior Notes

The 6.75% senior notes due in 2013 ("2013 Notes") were issued by the Company's subsidiary, Arch Western Finance LLC ("Arch Western Finance"), under an indenture dated June 25, 2003. The Company redeemed \$500.0 million aggregate principal amount of the 2013 Notes on September 8, 2010. The Company recognized a loss on the redemption of \$6.8 million, including the payment of the \$5.6 million redemption premium and the write-off of \$3.3 million of unamortized debt financing costs, partially offset by the write-off of \$2.1 million of the original issue premium. The senior notes are guaranteed by Arch Western and certain of its subsidiaries and are secured by an intercompany note from Arch Coal, Inc. to Arch Western. The terms of the senior notes contain restrictive covenants that limit Arch Western's ability to, among other things, incur additional debt, sell or transfer assets, and make certain investments. Of the aggregate principal outstanding at December 31, 2011 and 2010, \$118.4 million of the 2013 Notes were issued at a premium of 104.75% of par. The premium is amortized over the term of the notes. Interest is payable on the notes on January 1 and July 1 of each year. The notes are redeemable at any time at their face value.

2016 Senior Notes

On July 31, 2009, the Company issued \$600.0 million in aggregate principal amount of 8.75% senior unsecured notes due 2016 ("2016 Notes") at an initial issue price of 97.464% of the face amount. The Company incurred issue costs of \$14.5 million in association with the 2016 Notes. Interest is payable on the notes on February 1 and August 1 of each year. At any time on or after August 1, 2013, the Company may redeem some or all of the notes. The redemption price, reflected as a percentage of the principal amount, is: 104.375% for notes redeemed between August 1, 2013 and July 31, 2014; 102.188% for notes redeemed between August 1, 2014 and July 31, 2015; and 100% for notes redeemed on or after August 1, 2015. In addition, at any time and on one or more occasions prior to August 1, 2012, the Company may redeem an aggregate principal amount of senior notes not to exceed 35% of the original aggregate principal amount of the senior notes outstanding with the proceeds of one or more public equity offerings, at a redemption price equal to 108.750%.

2020 Senior Notes

On August 9, 2010, we issued \$500.0 million in aggregate principal amount of 7.25% senior unsecured notes due in 2020 ("2020 Notes") at par. Interest is payable on the 2020 Notes on April 1 and October 1 of each year. At any time on or after October 1, 2015, the Company may redeem some or all of the notes. The redemption price reflected as a percentage of the principal amount is: 103.625% for notes redeemed between October 1, 2015 and September 30, 2016; 102.417% for notes redeemed between October 1, 2016 and September 30, 2017; 101.208% for notes redeemed between October 1, 2017 and September 30, 2018; and 100% for notes redeemed on or after October 1, 2018. In addition, at any time and on one or more occasions prior to October 1, 2013, the Company may redeem an aggregate principal amount of senior notes not to exceed 35% of the original aggregate principal

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount of the senior notes outstanding with the proceeds of one or more public equity offerings, at a redemption price equal to 107.250%.

2019 and 2021 Senior Notes

On June 14, 2011, the Company entered into an indenture in conjunction with the issuance of the 7.00% unsecured senior notes due 2019 ("2019 Notes") and the 7.25% unsecured senior notes due 2021 ("2021 Notes") as discussed in Note 3, "Business Combinations." Interest is payable on the 2019 Notes and 2021 Notes on June 15 and December 15 of each year.

At any time prior to June 15, 2014, the Company may redeem up to 35% of the original aggregate principal amount of each of the 2019 Notes and 2021 Notes, plus accrued and unpaid interest, with the net proceeds from certain equity offerings, at a redemption price, reflected as a percentage of the principal amount, equal to 107.0% and 107.25%, respectively. The Company may redeem the 2019 Notes prior to June 15, 2015 and the 2021 Notes prior to June 15, 2016 at the respective make-whole prices set forth in the indenture. On or after June 15, 2015, the Company may redeem the 2019 Notes at redemption prices, reflected as a percentage of the principal amount, of: 103.5% from June 15, 2015 through June 14, 2016; 101.75% from June 15, 2016 through June 14, 2017; and 100% beginning on June 15, 2017. On or after June 15, 2016, the Company may redeem the 2021 Notes at redemption prices, reflected as a percentage of the principal amount, of: 103.625% from June 15, 2016 through June 14, 2017; 102.417% from June 15, 2017 through June 14, 2018; 101.208% from June 15, 2018 through June 14, 2019 and 100% beginning on June 15, 2019. In each case, accrued and unpaid interest at the redemption date is due upon redemption. Upon a change in control, the Company is required to make a tender offer for both series of notes at a price of 101% of the principal amount. The Company incurred issue costs of \$44.2 million related to the issuance of these notes.

The Company and the guarantor subsidiaries entered into a registration rights agreement (the "Registration Rights Agreement") in connection with the issuance and sale of the 2019 Notes and 2021 Notes. Pursuant to the Registration Rights Agreement, the Company and the guarantor subsidiaries agreed to file a registration statement with the Securities and Exchange Commission to register an exchange offer pursuant to which the Company will offer to exchange a like aggregate principal amount of senior notes identical in all material respects to the 2019 Notes and 2021 Notes, except for terms relating to additional interest and transfer restrictions, for any or all of the outstanding 2019 Notes and 2021 Notes. Pursuant to the Registration Rights Agreement, the Company must use commercially reasonable efforts to cause the registration statement to become effective as soon as practicable and to complete the exchange offer no later than June 13, 2012. Should those events not occur within the specified time frame, the applicable interest rates on the 2019 Notes and the 2021 Notes shall be increased by one-quarter of one percent per annum for the first 90 days following the occurrence of such failure. Such interest rate will increase by an additional one-quarter of one percent per annum thereafter at the end of each subsequent 90-day period up to a maximum aggregate increase of one percent per annum. Once any of the required events occur, the interest rates will revert to the rate specified in the indenture governing the 2019 Notes and 2021 Notes.

The 2016, the 2019, the 2020 and the 2021 unsecured senior notes are guaranteed by substantially all of the Company's subsidiaries, including the newly acquired subsidiaries of ICG and excluding Arch Western, its subsidiaries and Arch Receivable Company, LLC and the Company's subsidiaries outside the U.S.

Expected aggregate maturities of debt for the next five years are \$280.9 million in 2012, \$672.4 in 2013, \$0 in 2014, \$0 in 2015 and \$600.0 million in 2016.

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, dispose, merge or consolidate assets; incur additional debt; pay dividends and make distributions or repurchase stock; make investments; create liens; issue and sell capital stock of

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subsidiaries; enter into restrictions affecting the ability of restricted subsidiaries to make distributions, loans or advances to the Company; engage in transactions with affiliates and enter into sale and leaseback transactions. The terms also require the Company to, among other things, maintain various financial ratios and comply with various other financial covenants, including an interest coverage ratio test, as defined in the indentures. In addition, the covenants require the Company to pledge assets to collateralize the 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, 2011.

6. Acquired Sales Contracts

The acquired sales contracts reflected in the consolidated balance sheets are as follows:

	December 31, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
	(In thousands)		(In thousands)	
Acquired fair value	\$ 149,457	\$ 166,697	\$ 114,453	\$ 40,654
Accumulated amortization	(115,322)	(69,699)	(82,376)	(14,613)
Total	\$ 34,135	\$ 96,998	\$ 32,077	\$ 26,041
Net total		\$ (62,863)	\$ 6,036	
Balance Sheet classification:				
Other current	\$ 18,929	\$ 38,441	\$ 25,063	\$ 5,615
Other noncurrent	\$ 15,206	\$ 58,557	\$ 7,014	\$ 20,426

Above-market contracts with a fair value of \$35.0 million and below-market contracts with a fair value of \$126.0 million were acquired from ICG. See Note 3, "Business Combinations" for discussion of purchase price adjustments.

The Company anticipates amortization income of all acquired sales contracts, based upon expected shipments in the next five years, to be approximately \$18.5 million in 2012, \$5.2 million in 2013, \$3.3 million in 2014, \$12.7 million in 2015 and \$7.7 million in 2016.

7. Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes 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):

	Derivative Instruments	Pension, Postretirement and Other Post- Employment Benefits	Available-for- Sale Securities	Accumulated Other Comprehensive Loss
	(In thousands)			
Balance at January 1, 2009	\$ (45,249)	\$ (33,433)	\$ (414)	\$ (79,096)
2009 activity, before tax	72,553	20,124	(136)	92,541
2009 activity, tax effect	(26,118)	(7,230)	50	(33,298)
Balance at December 31, 2009	1,186	(20,539)	(500)	(19,853)
2010 activity, before tax	2,711	15,406	2,877	20,994
2010 activity, tax effect	(976)	(5,546)	(1,036)	(7,558)
Balance at December 31, 2010	2,921	(10,679)	1,341	(6,417)
2011 activity, before tax	(11,951)	9,345	176	(2,430)
2011 activity, tax effect	4,301	(3,342)	(62)	897

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Balance at December 31, 2011 \$ (4,729) \$ (4,676) \$ 1,455 \$ (7,950)

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Equity Investments and Membership Interests in Joint Ventures**

Below are the equity method investments reflected in the consolidated balance sheets:

	Knights Hawk	DKRW	DTA	Tenaska	Millennium	Tongue River	Total
	(In thousands)						
Balance at January 1, 2009	\$ 48,093	\$ 25,124	\$ 14,544	\$	\$	\$	\$ 87,761
Advances to (distributions from) affiliates, net	(5,164)		2,925				(2,239)
Equity in comprehensive income (loss)	6,674	(1,535)	(3,393)				1,746
Balance at December 31, 2009	49,603	23,589	14,076				87,268
Investments in affiliates	77,637			9,768			87,405
Advances to (distributions from) affiliates, net	(12,639)		4,264				(8,375)
Equity in comprehensive income (loss)	16,649	(1,628)	(3,868)				11,153
Balance at December 31, 2010	\$ 131,250	\$ 21,961	\$ 14,472	\$ 9,768	\$	\$	\$ 177,451
Investments in affiliates				5,500	25,000	12,989	43,489
Advances to (distributions from) affiliates, net	(16,621)		6,498		3,477		(6,646)
Equity in comprehensive income (loss)	20,596	(2,246)	(4,884)	(2)	(2,153)		11,311
Balance at December 31, 2011	\$ 135,225	\$ 19,715	\$ 16,086	\$ 15,266	\$ 26,324	\$ 12,989	\$ 225,605
Notes receivable from investees:							
Balance at December 31, 2010	\$ 1,700	\$ 18,100	\$	\$ 4,100	\$	\$	\$ 23,900
Balance at December 31, 2011		30,751		5,059			35,810

The Company holds an equity interest in Knight Hawk Holdings, LLC ("Knight Hawk"), a coal producer in the Illinois Basin. In June 2010, the Company exchanged 68.4 million tons of coal reserves in the Illinois Basin for an additional 9% ownership interest, increasing the Company's ownership in Knight Hawk to 42% from 33¹/₃%. The Company recognized a gain of \$41.6 million on the transaction, representing the difference between the fair value and the \$12.1 million net book value of the coal reserves, adjusted for the Company's retained ownership interest in the reserves through its investment in Knight Hawk. In December 2010, the Company increased its ownership interest in Knight Hawk to 49% for \$26.6 million in cash.

The Company holds a 24% equity interest in DKRW Advanced Fuels LLC ("DKRW"), a company engaged in developing coal-to-liquids facilities. Under a coal reserve purchase option with DKRW, DKRW could purchase reserves from the Company, which the Company would then mine on a contract basis for DKRW. DKRW may borrow funds from the Company under a convertible secured promissory note. Amounts borrowed are due and payable in cash or in additional equity interests on the earlier of April 15, 2012 or upon the closing of DKRW's next financing, bear interest at the rate of 1.25% per month, and are secured by DKRW's equity interests in Medicine Bow Fuel & Power LLC. As of December 31, 2011, DKRW had borrowed the maximum amount allowed under the note. The note balances above are reflected in other receivables on the consolidated balance sheets.

The Company holds a general partnership interest of 21.875% in Dominion Terminal Associates ("DTA"), which is accounted for under the equity method. DTA operates a ground storage-to-vessel coal transloading facility in Newport News, Virginia for use by the partners. 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 holds a 35% ownership interest in Tenaska Trailblazer Partners, LLC ("Tenaska"), the developer of the Trailblazer Energy Center, a fossil-fuel-based electric power plant near Sweetwater, Texas. The plant, fueled by low sulfur coal, will capture and store carbon

dioxide for enhanced oil recovery applications. Additional future payments are due upon the achievement of project milestones to maintain the Company's interest. The Company made a milestone payment of \$5.5 million in 2011. The Company will also pay 35% of the future development

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costs of the project, not to exceed \$12.5 million without prior approval from the Company. The receivables for these development costs, shown above, are reflected in the consolidated balance sheets in other noncurrent assets, as the development costs will either be reimbursed when the project receives construction financing, or they will be considered an additional capital contribution, with ownership percentages adjusted accordingly.

In January 2011, the Company purchased a 38% ownership interest in Millennium Bulk Terminals-Longview, LLC ("Millennium"), the owner of a brownfield bulk commodity terminal on the Columbia River near Longview, Washington, for \$25.0 million, plus additional future consideration upon the completion of certain project milestones. Millennium continues to work on obtaining the required approvals and necessary permits to complete dredging and other upgrades to enable coal, alumina and cementitious material shipments through the terminal. The Company will control 38% of the terminal's throughput and storage capacity, in order to facilitate export shipments of coal off the west coast of the United States.

In July 2011, the Company purchased a 33% membership interest in the Tongue River Holding Company, LLC ("Tongue River") joint venture. Tongue River will develop and construct a railway line near Miles City, Montana and the Company's Otter Creek reserves. The Company has the right, upon the receipt of permits and approval for construction or under other prescribed circumstances, to require the other investors to purchase all of the Company's units in the venture at an amount equal to the capital contributions made by the Company at that time, less any distributions received.

Under development financing agreements with certain investees, the Company may be required to make future contingent payments of up to \$74.4 million, including milestone payments. The Company's obligation to make these payments, as well as the timing of any payments required, is contingent upon a number of factors, including project development progress, receipt of permits and construction financing.

Summarized financial information of the Company's equity method investees follows:

	2011	December 31 2010	2009
	(In thousands)		
Condensed combined income statement information:			
Revenues	\$ 184,358	\$ 172,933	\$ 166,152
Gross profit	19,495	25,203	15,426
Income from operations	13,180	20,243	1,611
Net income (loss)	6,788	16,015	(1,797)
Condensed combined balance sheet information:			
Current assets	\$ 94,644	\$ 48,202	
Noncurrent assets	331,848	276,125	
Total assets	\$ 426,492	\$ 324,327	
Current liabilities	\$ 51,674	\$ 39,237	
Noncurrent liabilities	120,494	99,350	
Equity	254,163	185,639	
Noncontrolling interest	161	101	
Total liabilities and equity	\$ 426,492	\$ 324,327	

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Inventories consist of the following:

	December 31	
	2011	2010
	(In thousands)	
Coal	\$ 206,517	\$ 115,647
Repair parts and supplies	163,527	119,969
Work-in-process	7,446	
	\$ 377,490	\$ 235,616

The work-in-process is related to the Company's ADDCAR subsidiary acquired with ICG, which manufactures and sells its patented highwall mining system. The repair parts and supplies are stated net of an allowance for slow-moving and obsolete inventories of \$13.1 million and \$12.7 million at December 31, 2011 and 2010, respectively.

10. Derivative Instruments*Diesel fuel price risk management*

The Company is exposed to price risk with respect to diesel fuel purchased for use in its operations. The Company anticipates purchasing approximately 80 to 90 million gallons of diesel fuel for use in its operations during 2012. To reduce the volatility in the price of diesel fuel for its operations, the Company uses forward physical diesel purchase contracts, as well as heating oil swaps and purchased call options. At December 31, 2011, the Company had protected the price of approximately 82% of its expected purchases for fiscal year 2012.

At December 31 2011, the Company held heating oil swaps and purchased call options for approximately 69 million gallons for the purpose of managing the price risk associated with future diesel purchases. Since the changes in the price of heating oil highly correlate to changes in the price of the hedged diesel fuel purchases, the heating oil swaps and purchased call options qualify for cash flow hedge accounting.

The Company also purchased heating oil call options to hedge the fuel surcharges on its barge and rail shipments that cover increases in diesel fuel prices. These positions reduce the Company's risk of cash flow fluctuations related to these surcharges but the positions are not accounted for as hedges. At December 31, 2011, Company held purchased call options for approximately 19.1 million gallons for the purpose of managing the fluctuations in cash flows associated with fuel surcharges on future shipments.

Coal risk management positions

The Company may sell or purchase forward contracts, swaps and options in the over-the-counter coal market in order to manage its exposure to coal prices. The Company has exposure to the risk of fluctuating coal prices related to forecasted sales or purchases of coal or to the risk of changes in the fair value of a fixed price physical sales contract. Certain derivative contracts may be designated as hedges of these risks.

At December 31, 2011, the Company held derivatives for risk management purposes that are expected to settle in the following years :

	2012	2013	2014	2015
(Tons in thousands)				
Coal sales	2,416	1,117	1,440	720
Coal purchases	254			

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Coal trading positions*

The Company may sell or purchase forward contracts, swaps and options in the over-the-counter coal market for trading purposes. The Company is exposed to the risk of changes in coal prices on the value of its coal trading portfolio. The estimated future realization of the value of the trading portfolio is \$2.6 million of losses in 2012 and \$1.8 million of losses in 2013.

Tabular derivatives disclosures

The Company's contracts with certain of its counterparties allow for the settlement of contracts in an asset position with contracts in a liability position in the event of default or termination. Such netting arrangements reduce the Company's credit exposure related to these counterparties. For classification purposes, the Company records the net fair value of all the positions with a given counterparty as a net asset or liability in the consolidated balance sheets. The amounts shown in the table below represent the fair value position of individual contracts, regardless of the net position presented in the accompanying consolidated balance sheets. The fair value and location of derivatives reflected in the accompanying consolidated balance sheets are as follows:

Fair Value of Derivatives (In thousands)	December 31, 2011		December 31, 2010	
	Asset Derivative	Liability Derivative	Asset Derivative	Liability Derivative
Derivatives Designated as Hedging Instruments				
Heating oil diesel purchases	\$ 8,997	\$	\$ 13,475	\$
Coal	1,109		2,009	(2,350)
Total	10,106		15,484	(2,350)
Derivatives Not Designated as Hedging Instruments				
Heating oil fuel surcharges	1,797			
Coal held for trading purposes	15,505	(19,927)	34,445	(24,087)
Coal	14,855	(6,035)	1,139	(912)
Total	32,157	(25,962)	35,584	(24,999)
Total derivatives	42,263	(25,962)	51,068	(27,349)
Effect of counterparty netting	(18,134)	18,134	(22,402)	22,402
Net derivatives as classified in the balance sheets	\$ 24,129	\$ (7,828)	\$ 16,301	\$ 28,666
			\$ (4,947)	\$ 23,719

Net derivatives as reflected on the balance sheets	December 31		
	2011	2010	
Heating oil	Other current assets	\$ 10,794	\$ 13,475
Coal	Coal derivative assets	13,335	15,191
	Coal derivative liabilities	(7,828)	(4,947)
		\$ 16,301	\$ 23,719

The Company had a current asset for the right to reclaim cash collateral of \$12.4 million and \$10.3 million at December 31, 2011 and December 31, 2010, respectively. These amounts are not included with the derivatives

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presented in the table above and are included in "other current assets" in the accompanying consolidated balance sheets.

The effects of derivatives on measures of financial performance are as follows:

Year Ended December 31,
(In thousands)

Derivatives used in Fair Value Hedging Relationships	Gain on Derivatives Used in Fair Value Hedge Relationships			Hedged Items in Fair Value Hedge Relationships	Loss on Hedged Items In Fair Value Hedge Relationships		
	2011	2010	2009		2011	2010	2009
	(In thousands)				(In thousands)		
Coal	\$ (3)	\$ (3)	\$ 2,586 ⁽³⁾	Firm commitments	\$ (3)	\$ (3)	\$ (2,586) ⁽³⁾

Derivatives used in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI (Effective Portion)			Gains (Losses) Reclassified from OCI into Income (Effective Portion)		
	2011	2010	2009	2011	2010	2009
	Heating oil diesel purchases	\$ 1,294	\$ (149)	\$ 10,309	\$ 14,866 ⁽²⁾	\$ 437 ⁽²⁾
Coal sales	4,923	(4,714)	(7,441)	1,572 ⁽¹⁾	(1,602) ⁽¹⁾	(6,999) ⁽¹⁾
Coal purchases	(2,009)	5,145	1,089	(2)	(1,202) ⁽²⁾	(13,181) ⁽²⁾
Totals	\$ 4,208	\$ 282	\$ 3,957	\$ 16,438	\$ (2,367)	\$ (69,235)

Derivatives used in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
	2011	2010	2009
	Heating oil diesel purchases	\$	\$
Coal sales			
Coal purchases			
Totals	\$	\$	\$

Derivatives Not Designated as Hedging Instruments	Gain (Loss)		
	2011	2010	2009
	Coal unrealized	\$ 6,438 ⁽³⁾	\$ (10,991) ⁽³⁾
Coal realized	\$ (7) ⁽⁴⁾	\$ 4,542 ⁽⁴⁾	\$ (4)
Heating oil fuel surcharges unrealized	\$ (2,906) ⁽⁴⁾	\$ (4)	\$ (4)

Location in Statement of Income:

- (1) Revenues
- (2) Cost of sales
- (3) Change in fair value of coal derivatives and coal trading activities, net
- (4) Other operating income, net

The Company recognized net unrealized and realized losses of \$3.5 million during the year ended December 31, 2011 and net unrealized and realized gains of \$2.1 million and \$2.4 million, during the years ended December 31, 2010 and 2009, respectively, related to its trading

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portfolio (including derivative and non-derivative contracts). These balances are included in the caption "Change in fair value of coal derivatives and coal trading activities, net" in the accompanying consolidated statements of income and are not included in the previous table.

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During the next twelve months, based on fair values at December 31, 2011, gains on derivative contracts designated as hedge instruments in cash flow hedges of approximately \$9.2 million are expected to be reclassified from other comprehensive income into earnings.

11. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31	
	2011	2010
	(In thousands)	
Payroll and employee benefits	\$ 65,323	\$ 51,327
Taxes other than income taxes	133,331	107,969
Interest	55,266	52,843
Acquired sales contracts (see Note 6)	38,441	5,615
Workers' compensation (see Note 15)	11,666	6,659
Asset retirement obligations (see Note 14)	27,119	8,862
Other	17,061	12,136
	\$ 348,207	\$ 245,411

12. Taxes

The Company is subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. The tax years 2005 through 2011 remain open to examination for U.S. federal income tax matters and 1998 through 2011 remain open to examination for various state income tax matters.

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

	Year Ended December 31		
	2011	2010	2009
	(In thousands)		
Current:			
Federal	\$ (20,164)	\$ 34,304	\$ 21,295
State	1,212	2,283	864
Total current	(18,952)	36,587	22,159
Deferred:			
Federal	13,214	(18,506)	(39,492)
State	(1,851)	(367)	558
Total deferred	11,363	(18,873)	(38,934)
	\$ (7,589)	\$ 17,714	\$ (16,775)

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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:

	Year Ended December 31		
	2011	2010	2009
	(In thousands)		
Income tax expense at statutory rate	\$ 46,933	\$ 61,800	\$ 8,888
Percentage depletion allowance	(61,971)	(49,152)	(29,463)
State taxes, net of effect of federal taxes	(3,055)	2,299	(61)
Change in valuation allowance	2,416	(383)	725
Other, net	8,088	3,150	3,136
	\$ (7,589)	\$ 17,714	\$ (16,775)

In 2011, 2010 and 2009, compensatory stock options and other equity based compensation awards were exercised resulting in a tax expense (benefit) of \$(0.4) million, \$(0.8) million and \$0.2 million, respectively. The tax benefit will be recorded in paid-in capital at such point in time when a cash tax benefit is recognized.

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	
	2011	2010
	(In thousands)	
Deferred tax assets:		
Alternative minimum tax credit carryforwards	\$ 151,404	\$ 170,592
Net operating loss carryforwards	324,393	102,355
Reclamation and mine closure	93,914	71,533
Advance royalties		38,557
Plant and equipment		19,846
Acquired sales contracts	44,717	20,120
Other, primarily accrued liabilities	171,715	90,412
Gross deferred tax assets	786,143	513,415
Valuation allowance	(2,831)	(737)
Total deferred tax assets	783,312	512,678
Deferred tax liabilities		
Plant and equipment	1,566,769	
Deferred development	67,728	76,690
Investment in tax partnerships	66,502	68,538
Other	17,015	13,669
Total deferred tax liabilities	1,718,014	158,897
Net deferred tax asset (liability)	(934,702)	353,781
Current asset (liability)	42,051	(7,775)
Non-current deferred tax asset (liability)	\$ (976,753)	\$ 361,556

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has federal net operating loss carryforwards for regular income tax purposes of \$779.1 million at December 31, 2011 that will expire between 2012 and 2031. The Company has an alternative minimum tax credit carryforward of \$151.4 million at December 31, 2011, which has no expiration date and can be used to offset future regular tax in excess of the alternative minimum tax.

During 2008, the Company reached a settlement with the IRS regarding the Company's treatment of the 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 settlement did not result in a net change in deferred tax assets, but involved a re-characterization of deferred tax assets, including an increase in net operating loss carryforwards of \$145.1 million and other amortizable assets which will provide additional tax deductions through 2013. A portion of these future cash tax benefits accrue to ARCO pursuant to the original purchase agreement, including \$0.8 million, \$1.3 million and \$4.8 million paid in 2011, 2010 and 2009, respectively, that was recorded as goodwill.

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. Management reassesses the ability to realize its deferred tax assets annually in the fourth quarter or when circumstances indicate that the ability to realize deferred tax assets has changed. In determining the appropriate valuation allowance, the assessment takes into account expected future taxable income and available tax planning strategies. This review resulted in increases (decreases) in the valuation allowance of \$2.1 million, \$(0.4) million and \$0.7 million in 2011, 2010 and 2009, respectively. The valuation allowance relates to certain state and foreign net operating loss benefits.

A reconciliation of the beginning and ending amounts of gross unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2009	\$ 4,878
Additions based on tax positions related to the current year	1,593
Additions for tax positions of prior years	205
Reductions for tax positions of prior years	(6)
 Balance at December 31, 2009	 6,670
Additions based on tax positions related to the current year	1,493
Additions for tax positions of prior years	85
Reductions for tax positions of prior years	(3,830)
 Balance at December 31, 2010	 4,418
Additions based on tax positions related to the current year	1,626
Additions for tax positions of prior years	2,754
 Balance at December 31, 2011	 \$ 8,798

If recognized, the entire amount of the gross unrecognized tax benefits at December 31, 2011 would affect the effective tax rate.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company had accrued interest and penalties of \$0.8 million and \$0.6 million at December 31, 2011 and 2010, respectively, of which \$0.2 million and \$0.1 million was recognized as expense during 2011 and 2010, respectively. No gross unrecognized tax benefits are expected to be reduced in the next 12 months due to the expiration of the statute of limitations.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Fair Values of Financial Instruments**

The hierarchy of fair value measurements prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy, as defined below, give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Level 1 is defined as observable inputs such as quoted prices in active markets for identical assets. Level 1 assets include available-for-sale equity securities and coal futures that are submitted for clearing on the New York Mercantile Exchange.

Level 2 is defined as observable inputs other than Level 1 prices. These include quoted prices for similar assets or liabilities in an active market, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's level 2 assets and liabilities include commodity contracts (coal and heating oil) with fair values derived from quoted prices in over-the-counter markets or from prices received from direct broker quotes.

Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. These include the Company's commodity option contracts (primarily coal and heating oil) valued using modeling techniques, such as Black-Scholes, that require the use of inputs, particularly volatility, that are rarely observable.

The table below sets forth, by level, the Company's financial assets and liabilities that are recorded at fair value in the accompanying consolidated balance sheet:

	Fair Value at December 31, 2011			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets:				
Investments in equity securities	\$ 7,540	\$ 7,540	\$	\$
Derivatives	24,129	12,361	1,450	10,318
Total assets	\$ 31,669	\$ 19,901	\$ 1,450	\$ 10,318
Liabilities:				
Derivatives	\$ 7,828	\$	\$ 3,721	\$ 4,107

The Company's contracts with certain of its counterparties allow for the settlement of contracts in an asset position with contracts in a liability position in the event of default or termination. For classification purposes, the Company records the net fair value of all the positions with these counterparties as a net asset or liability. Each level in the table above displays the underlying contracts according to their classification in the accompanying consolidated balance sheet, based on this counterparty netting.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the change in the fair values of financial instruments categorized as level 3.

	Year Ended December 31, 2011	
	(In thousands)	
Balance, beginning of period	\$	9,183
Realized and unrealized losses recognized in earnings, net		(16,727)
Realized and unrealized losses recognized in other comprehensive income, net		(4,122)
Purchases		23,867
Issuances		(2,160)
Settlements		(3,830)
Balance, end of period	\$	6,211

Net unrealized losses during the twelve months ended December 31, 2011 related to level 3 financial instruments held on December 31, 2011 were \$13.1 million.

Fair Value of Long-Term Debt

At December 31, 2011 and December 31, 2010, the fair value of the Company's senior notes and other long-term debt, including amounts classified as current, was \$4.2 billion and \$1.7 billion, respectively. Fair values are based upon observed prices in an active market when available or from valuation models using market information.

14. 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 following table describes the changes to the Company's asset retirement obligation liability:

	Year Ended December 31	
	2011	2010
	(In thousands)	
Balance at January 1 (including current portion)	\$ 343,119	\$ 310,409
Accretion expense	33,601	26,615
Obligations incurred or acquired	115,019	
Adjustments to the liability from changes in estimates	11,176	8,934
Liabilities settled	(29,012)	(2,839)
Balance at December 31	\$ 473,903	\$ 343,119
Current portion included in accrued expenses	(27,119)	(8,862)
Noncurrent liability	\$ 446,784	\$ 334,257

Liabilities settled of \$29.0 million in 2011 related to reclamation activities at the Black Thunder mining complex related to a pit acquired with the Jacobs Ranch operations in 2009.

As of December 31, 2011, the Company had \$263.0 million in surety bonds outstanding and \$420.5 million in self-bonding to secure reclamation obligations.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. 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. The occupational disease benefit obligation represents the present value of the actuarially computed present and future liabilities for such benefits over the employees' applicable years of service.

In addition, the Company is liable for workers' compensation benefits for traumatic injuries 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		
	2011	2010	2009
	(In thousands)		
Self-insured occupational disease benefits:			
Service cost	\$ 2,059	\$ 727	\$ 531
Interest cost	1,799	675	558
Net amortization	(493)	(1,860)	(2,879)
Total occupational disease	3,365	(458)	(1,790)
Traumatic injury claims and assessments	16,979	9,263	8,904
Total workers' compensation expense	\$ 20,344	\$ 8,805	\$ 7,114

The increase in total workers' compensation expense for the year ended 2011 is related to the acquisition of ICG.

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

	December 31	
	2011	2010
	(In thousands)	
Beginning of year obligation	\$ 17,412	\$ 9,702
Service cost	2,059	727
Interest cost	1,799	675
Actuarial loss	7,081	6,993
Benefit and administrative payments	(1,097)	(685)
Acquisition of ICG	26,930	
Net obligation at end of year	\$ 54,184	\$ 17,412

At December 31, 2011 and 2010, accumulated losses of \$5.5 million and accumulated gains of \$2.0 million, respectively, were not yet recognized in occupational disease cost and were recorded in accumulated other comprehensive income. The expected accumulated loss that will be amortized from accumulated other comprehensive income into occupational disease cost in 2012 is \$1.1 million.

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The following table provides the assumptions used to determine the projected occupational disease obligation:

	Year Ended December 31		
	2011	2010	2009
Weighted average assumptions:			
Discount rate	5.10%	5.96%	6.11%
Cost escalation rate	3.00%	3.00%	3.00%

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

	December 31	
	2011	2010
	(In thousands)	
Occupational disease costs	\$ 54,184	\$ 17,412
Traumatic and other workers' compensation claims	29,430	24,537
Total obligations	83,614	41,949
Less amount included in accrued expenses	11,666	6,659
Noncurrent obligations	\$ 71,948	\$ 35,290

As of December 31, 2011, the Company had \$60.1 million in surety bonds and letters of credit outstanding to secure workers' compensation obligations.

16. Employee Benefit Plans***Defined Benefit Pension and Other Postretirement Benefit Plans***

The Company provides funded and unfunded 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 or more than the maximum amount that can be deducted for U.S. federal income tax purposes.

The Company also currently provides certain postretirement medical and 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 benefit plans are contributory, with retiree contributions adjusted annually, 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 benefits as they are paid.

Employees acquired with the ICG acquisition were brought over in their existing plan. Subsequently, the terms of the plan were amended to change vesting periods, coverage caps, and eligible ages, resulting in a reduction of the benefit obligation of \$55.5 million.

During 2009, the Company notified participants of the retiree medical plan of a plan change increasing the retirees' responsibility for medical costs. This change resulted in a remeasurement of the postretirement benefit obligation, which included a decrease in the discount rate from 6.85% to 5.68%. The remeasurement resulted in a decrease in the liability of \$21.0 million, with a corresponding increase to other comprehensive income, and will result in future reductions in costs under the plan.

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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	
	2011	2010	2011	2010
(In thousands)				
CHANGE IN BENEFIT OBLIGATIONS				
Benefit obligations at January 1	\$ 297,707	\$ 280,693	\$ 39,633	\$ 46,445
Service cost	16,490	15,870	3,917	1,509
Interest cost	16,253	15,822	3,279	2,083
Plan amendments	(3,235)	(92)	(55,542)	
Benefits paid	(18,848)	(15,924)	(1,669)	(1,845)
Acquisition of ICG			48,441	
Other-primarily actuarial loss (gain)	25,584	1,338	7,070	(8,559)
Benefit obligations at December 31	\$ 333,951	\$ 297,707	\$ 45,129	\$ 39,633
CHANGE IN PLAN ASSETS				
Value of plan assets at January 1	\$ 247,713	\$ 211,899	\$	\$
Actual return on plan assets	9,443	34,401		
Employer contributions	46,766	17,337	1,669	1,845
Benefits paid	(18,848)	(15,924)	(1,669)	(1,845)
Value of plan assets at December 31	\$ 285,074	\$ 247,713	\$	\$
Accrued benefit cost	\$ (48,877)	\$ (49,994)	\$ (45,129)	\$ (39,633)
ITEMS NOT YET RECOGNIZED AS A COMPONENT OF NET PERIODIC BENEFIT COST				
Prior service credit (cost)	\$ 1,736	\$ (1,310)	\$ 62,920	\$ 9,742
Accumulated gain (loss)	(68,302)	(39,099)	1,795	11,965
	\$ (66,566)	\$ (40,409)	\$ 64,715	\$ 21,707
BALANCE SHEET AMOUNTS				
Current liability	\$ (633)	\$ (840)	\$ (2,820)	\$ (1,840)
Noncurrent liability	\$ (48,244)	\$ (49,154)	\$ (42,309)	\$ (37,793)
	\$ (48,877)	\$ (49,994)	\$ (45,129)	\$ (39,633)

Pension Benefits

The accumulated benefit obligation for all pension plans was \$314.7 million and \$280.4 million at December 31, 2011 and 2010, respectively. The accumulated benefit obligation differs from the benefit obligation in that it includes no assumption about future compensation levels.

The benefit obligation and the accumulated benefit obligation for the Company's unfunded pension plan were \$8.2 million and \$7.1 million, respectively, at December 31, 2011.

The prior service credit and net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2012 are \$0.1 million and \$14.3 million, respectively.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Other Postretirement Benefits*

The prior service credit and net gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2012 is \$12.0 million and \$0.4 million, respectively.

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			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
	(In thousands)					
Service cost	\$ 16,490	\$ 15,870	\$ 13,444	\$ 3,917	\$ 1,509	\$ 2,954
Interest cost	16,253	15,822	15,946	3,279	2,083	3,667
Expected return on plan assets*	(21,812)	(19,392)	(17,719)			
Amortization of prior service cost (credit)	(189)	173	193	(2,364)	(2,364)	2,161
Amortization of other actuarial losses (gains)	8,748	7,130	3,967	(3,100)	(2,918)	(2,897)
Curtailments			585			
Net benefit cost	\$ 19,490	\$ 19,603	\$ 16,416	\$ 1,732	\$ (1,690)	\$ 5,885

*

The Company does not fund its other postretirement benefit obligations.

The differences generated from changes in assumed discount rates and returns on plan assets are amortized into earnings over a five-year period.

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

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
Weighted average assumptions:				
Discount rate	4.91%	5.71%	4.52%	5.23%
Rate of compensation increase	3.39%	3.39%	N/A	N/A

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

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Weighted average assumptions:						
Discount rate	5.71%	5.97%	6.85%	5.23%	5.67%	6.85%/5.68%
Rate of compensation increase	3.39%	3.39%	3.39%	N/A	N/A	N/A
Expected return on plan assets	8.50%	8.50%	8.50%	N/A	N/A	N/A

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 return 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

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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.

The health care cost trend rate assumed for 2012 is 7.7% and is expected to reach an ultimate trend rate of 4.5% by 2028. A one-percentage-point increase in the health care cost trend rate would have increased the postretirement benefit obligation at December 31, 2011 by \$0.5 million. A one-percentage-point decrease in the health care cost trend rate would have decreased the postretirement benefit obligation at December 31, 2011 by \$0.4 million. The effect of these changes would have had an insignificant impact on the net periodic postretirement benefit costs.

Plan Assets

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.

The Company's pension plan assets at December 31, 2011 and 2010, respectively, are categorized below according to the fair value hierarchy as defined in Note 13, "Fair Values of Financial Instruments":

	Total		Level 1		Level 2		Level 3	
	2011	2010	2011	2010	2011	2010	2011	2010
	(In thousands)							
Equity securities:^(A)								
U.S. small-cap	\$ 11,178	\$ 10,647	\$ 11,178	\$ 10,647	\$	\$	\$	\$
U.S. mid-cap	50,264	46,851	23,474	21,163	26,790	25,688		
U.S. large-cap	91,561	77,632	44,820	38,397	46,741	39,235		
Non-U.S.	22,509	24,995			22,509	24,995		
Fixed income securities:								
U.S. government securities ^(B)	13,454	3,053	12,738	2,492	716	561		
Non-U.S. government securities ^(C)	2,968	3,469			2,968	3,469		
U.S. government asset and mortgage backed securities ^(D)	800	1,073			800	1,073		
Corporate fixed income ^(E)	14,004	13,737			14,004	13,737		
State and local government securities ^(F)	18,416	13,679			18,416	13,679		
Other fixed income ^(G)	51,470	45,628			51,470	45,628		
Short-term investments^(H)	8,029	6,110			8,029	6,110		
Other investments^(I)	421	839			421	839		
Total	\$ 285,074	\$ 247,713	\$ 92,210	\$ 72,699	\$ 192,864	\$ 175,014	\$	\$

(A) Equity securities includes investments in 1) common stock, 2) preferred stock and 3) mutual funds. Investments in common and preferred stocks are valued using quoted market prices multiplied by the number

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of shares owned. Investments in mutual funds are valued at the net asset value per share multiplied by the number of shares held as of the measurement date and are traded on listed exchanges.

- (B) U.S. government securities includes agency and treasury debt. These investments are valued using dealer quotes in an active market.
- (C) Non-U.S. government securities includes debt securities issued by foreign governments and are valued utilizing a price spread basis valuation technique with observable sources from investment dealers and research vendors.
- (D) U.S. government asset and mortgage backed securities includes government-backed mortgage funds which are valued utilizing an income approach that includes various valuation techniques and sources such as discounted cash flows models, benchmark yields and securities, reported trades, issuer trades and/or other applicable data.
- (E) Corporate fixed income is primarily comprised of corporate bonds and certain corporate asset-backed securities that are denominated in the U.S. dollar and are investment-grade securities. These investments are valued using dealer quotes.
- (F) State and local government securities include different U.S. state and local municipal bonds and asset backed securities, these investments are valued utilizing a market approach that includes various valuation techniques and sources such as value generation models, broker quotes, benchmark yields and securities, reported trades, issuer trades and/or other applicable data.
- (G) Other fixed income investments are actively managed fixed income vehicles that are valued at the net asset value per share multiplied by the number of shares held as of the measurement date.
- (H) Short-term investments include governmental agency funds, government repurchase agreements, commingled funds, and pooled funds and mutual funds. Governmental agency funds are valued utilizing an option adjusted spread valuation technique and sources such as interest rate generation processes, benchmark yields and broker quotes. Investments in governmental repurchase agreements, commingled funds and pooled funds and mutual funds are valued at the net asset value per share multiplied by the number of shares held as of the measurement date.
- (I) Other investments includes cash, forward contracts, derivative instruments, credit default swaps, interest rate swaps and mutual funds. Investments in interest rate swaps are valued utilizing a market approach that includes various valuation techniques and sources such as value generation models, broker quotes in active and non-active markets, benchmark yields and securities, reported trades, issuer trades and/or other applicable data. Forward contracts and derivative instruments are valued at their exchange listed price or broker quote in an active market. The mutual funds are valued at the net asset value per share multiplied by the number of shares held as of the measurement date and are traded on listed exchanges.

Cash Flows. In order to achieve a desired funded status, the Company expects to make contributions of \$24.5 million to the pension plans in 2012.

Table of Contents**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)	
2012	\$ 17,898	\$ 3,411
2013	20,854	3,787
2014	22,803	4,060
2015	22,492	4,406
2016	26,185	4,694
Years 2017-2021	164,788	25,122
	\$ 275,020	\$ 45,480

Other Plans

The Company sponsors savings plans which were established to assist eligible employees provide for their future retirement needs. The Company's expense, representing its contributions to the plans, was \$25.9 million, \$18.1million and \$15.9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

17. 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, depository shares, purchase contracts, purchase units, common stock and related rights and warrants.

Common Stock

On June 8, 2011, the Company sold 48 million shares of its common stock at a public offering price of \$27.00 per share. The \$1.25 billion in net proceeds from the issuance were used to finance the acquisition of ICG. On July 8, 2011, the Company issued an additional 0.7 million shares of its common stock under the same terms and conditions to cover underwriters' over-allotments for net proceeds of \$18.4 million.

On July 31, 2009, the Company sold 17 million shares of its common stock at a public offering price of \$17.50 per share and on August 6, 2009, the Company issued an additional 2.55 million shares of its common stock under the same terms and conditions to cover underwriters' over-allotments. The net proceeds received from the issuance of common stock were \$326.5 million, which was used primarily to finance the purchase of the Jacobs Ranch mining complex in 2009.

Stock Repurchase Plan

The Company's share repurchase program allows for the purchase of up to 14,000,000 shares of the Company's common stock. At December 31, 2011, 10,925,800 shares of common stock were available for repurchase under the plan. There were no purchases made under the plan during 2011, 2010 or 2009. There is no expiration date on the program. Any future repurchases under the plan will be made at management's discretion and will depend on market conditions and other factors.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18. Stock Based Compensation and Other Incentive Plans**

Under the Company's Stock Incentive Plan (the "Incentive Plan"), 18,000,000 shares of the Company's common stock are reserved 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, 2011, the Company had stock options, restricted stock and restricted stock units outstanding under the Incentive Plan.

Stock Options

Stock options are granted at a price equal to the closing market price of the Company's common stock on the date of grant and are generally subject to vesting provisions of at least one year from the date of grant. Information regarding stock option activity under the Incentive Plan follows for the year ended December 31, 2011:

	Common Shares (In thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (In thousands)	Average Contract Life
Options outstanding at January 1	4,544	\$ 25.18		
Granted	728	32.18		
Exercised	(199)	11.61		
Canceled	(88)	23.74		
Expired	(32)	52.69		
Options outstanding at December 31	4,953	26.60	\$ 4,107	5.76
Options exercisable at December 31	3,157	27.59	3,887	4.35

The aggregate intrinsic value of options exercised during the years ended December 31, 2011, 2010 and 2009 was \$2.6 million, \$3.0 million and \$0.1 million, respectively.

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, 2011:

	Common Shares (In thousands)	Weighted Average Grant-Date Fair Value
Unvested options at January 1	1,901	\$ 10.61
Granted	728	14.18
Vested	(746)	13.28
Canceled	(87)	10.35
Unvested options at December 31	1,796	10.96

Compensation expense related to stock options for the years ended December 31, 2011, 2010 and 2009 was \$8.8 million, \$10.6 million and \$11.8 million, respectively. As of December 31, 2011, there was \$8.2 million of unrecognized compensation cost related to the unvested stock options. The total grant-date fair value of options vested during the years ended December 31, 2011, 2010 and 2009 was \$9.9 million, \$10.6 million and \$9.1 million, respectively. The options provide for the continuation of vesting for retirement-eligible recipients that meet certain criteria. The expense for these options is recognized through the date that the employee first becomes

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

eligible to retire and is no longer required to provide service to earn part or all of the award. The majority of the cost relating to the stock-based compensation plans is included primarily in selling, general and administrative expenses in the accompanying consolidated statements of income.

Weighted average assumptions used in the Black-Scholes option pricing model for granted options follow:

	Year Ended December 31		
	2011	2010	2009
Weighted average grant-date fair value per share of options granted	\$ 14.18	\$ 9.43	\$ 6.63
Assumptions (weighted average):			
Risk-free interest rate	1.92%	2.16%	1.75%
Expected dividend yield	1.25%	1.99%	2.56%
Expected volatility	57.4%	57.1%	69.3%
Expected life (in years)	4.5	4.5	4.5

Expected volatilities are based on historical stock price movement and implied volatility from traded options on the Company's stock. The expected life of the option was determined based on historical exercise activity. Most options granted vest over a period of four years.

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.

Information regarding restricted stock and restricted stock unit activity and weighted average grant-date fair value follows for the year ended December 31, 2011:

	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	74	\$ 24.69	54	\$ 52.69
Granted	140	30.42		
Vested	(27)	39.77	(27)	52.69
Canceled	(5)	32.49		
Outstanding at December 31	182	26.68	27	52.69

The weighted average fair value of restricted stock granted during 2010 and 2009 was \$22.03 and \$14.05, respectively. There were no restricted stock units granted during 2010 or 2009. The total grant-date fair value of restricted stock that vested during 2011, 2010 and 2009 was \$1.1 million, \$0.4 million and \$1.5 million, respectively. The total grant-date fair value of restricted stock units that vested during 2011 and 2009 was \$1.4 million and \$0.4 million, respectively. There were no restricted stock units that vested during 2010. Unearned compensation of \$3.4 million will be recognized over the remaining vesting period of the outstanding restricted stock and restricted stock units. The Company recognized expense of approximately \$2.1 million, \$1.1 million and \$1.7 million related to restricted stock and restricted stock units for the years ended December 31, 2011, 2010 and 2009, respectively, primarily in selling, general and administrative expenses.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Long-Term Incentive Compensation***

The Company has a long-term incentive program that allows for the award of performance units. The total number of units earned by a participant is based on financial and operational performance measures, and may be paid out in cash or in shares of the Company's common stock. The Company recognizes compensation expense over the three year term of the grant. The liabilities are remeasured quarterly. The Company recognized \$2.7 million, \$3.8 million and \$2.6 million for the years ended December 31, 2011, 2010 and 2009, respectively. The expense is included primarily in selling, general and administrative expenses in the accompanying consolidated statements of income. Amounts accrued under the plan were \$9.6 million and \$6.4 million at December 31, 2011 and 2010, respectively.

Deferred Compensation Plan

The Company maintains a deferred compensation plan that allows eligible employees to defer receipt of compensation until the dates elected by the participant. Participants in the plan may defer up to 85% of their base salaries and up to 100% of their annual incentive awards. The plan also allows participants to defer receipt of up to 100% of the shares under any restricted stock unit or performance-contingent stock awards. The amounts deferred are invested in accounts that mirror the gains and losses of a number of different investment funds, including a hypothetical investment in shares of the Company's common stock. Participants are always vested in their deferrals to the plan and any related earnings. The Company has established a grantor trust to fund the obligations under the plan. The trust has purchased corporate-owned life insurance to offset these obligations. The net cash surrender values of the policies of \$35.8 million and \$40.7 million at December 31, 2011 and 2010, respectively, are included in other noncurrent assets in the accompanying consolidated balance sheets. The participants have an unsecured contractual commitment by the Company to pay the amounts due under the plan. Any assets placed in trust by the Company to fund future obligations of the plan are subject to the claims of creditors in the event of insolvency or bankruptcy, and participants are general creditors of the company as to their deferred compensation in the plans.

Under the plan, the Company credits each participant's account with the number of units equal to the number of shares or units that the participant could purchase or receive with the amount of compensation deferred, based upon the fair market value of the underlying investment on that date. The amount the employee will receive from the plan will be based on the number of units credited to each participant's account, valued on the basis of the fair market value of an equivalent number of shares or units of the underlying investment on that date. The liability under the plan was \$32.7 million at December 31, 2011 and \$38.5 million at December 31, 2010.

The Company's net income (expense) related to the deferred compensation plan for the years ended December 31, 2011, 2010 and 2009 was \$6.2 million, \$(2.8) million and \$4.1 million, respectively, most of which is included in selling, general and administrative expenses in the accompanying consolidated statements of income.

19. Risk Concentrations***Credit Risk and Major Customers***

The Company has a formal written credit policy that establishes procedures to determine creditworthiness and credit limits for trade customers and counterparties in the over-the-counter coal market. Generally, credit is extended based on an evaluation of the customer's financial condition. Collateral is not generally required, unless credit cannot be established. Credit losses are provided for in the financial statements and historically have been minimal.

The Company markets its steam coal principally to electric utilities in the United States and its metallurgical coal to domestic and foreign steel producers. Revenues from export sales were \$920.0 million, \$471.5 million and \$194.4 million for the years ended December 31, 2011, 2010 and 2009, respectively. The increasing export sales are primarily the result of an increase in metallurgical-quality coal sales volumes, although steam coal exports also increased. As of December 31, 2011 and 2010, accounts receivable from electric utilities located in the United

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

States totaled \$261.2 million and \$183.1 million, respectively, or 69% and 88% of total trade receivables, respectively. As of December 31, 2011 and 2010, accounts receivable from sales of metallurgical-quality coal totaled \$117.4 million and \$24.9 million, respectively, or 31% and 12%, of total trade receivables, respectively.

The Company uses shipping destination as the basis for attributing revenue to individual countries. The Company's foreign revenues by geographical location for the year ended December 31, 2011, follows:

	December 31, 2011	
	(In thousands)	
Europe	\$	427,514
South America		120,842
North America		97,255
Asia		61,308
Brokered sales		213,087
 Total	 \$	 920,006

The Company is committed under long-term contracts to supply steam 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 sold approximately 156.9 million tons of coal in 2011. Approximately 72% of this tonnage (representing approximately 57% of the Company's revenue) was sold under long-term contracts (contracts having a term of greater than one year). Long-term contracts range in remaining life from one to nine years. Sales (including spot sales) to the Company's largest customer, Tennessee Valley Authority, were \$266.8 million, \$301.4 million and \$278.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Third-party sources of coal

The Company uses independent contractors to mine coal at certain mining complexes. The Company also purchases coal from third parties that it sells to customers. Factors beyond the Company's control could affect the availability of coal produced for or purchased by the Company. Disruptions in the quantities of coal produced for or purchased by the Company could impair its ability to fill customer orders or require it to purchase coal from other sources at prevailing market prices in order to satisfy those orders.

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. In the past, disruptions in rail service have resulted in missed shipments and production interruptions.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20. Earnings per Common Share**

The following table provides the basis for earnings per share calculations by reconciling basic and diluted weighted average shares outstanding:

	Year Ended December 31		
	2011	2010	2009
	(In thousands)		
Weighted average shares outstanding:			
Basic weighted average shares outstanding	190,086	162,398	150,963
Effect of common stock equivalents under incentive plans	819	812	309
Diluted weighted average shares outstanding	190,905	163,210	151,272

The effect of options to purchase 2.6 million, 2.5 million and 2.2 million shares of common stock were excluded from the calculation of diluted weighted average shares outstanding for the years ended December 31, 2011, 2010 and 2009, respectively, because the exercise price of these options exceeded the average market price of the Company's common stock for this period.

21. 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. 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, 2011 are as follows:

	Operating Leases	Royalties
	(In thousands)	
2012	\$ 28,903	\$ 24,378
2013	27,610	25,595
2014	25,119	25,810
2015	17,641	27,565
2016	9,648	24,397
Thereafter	12,640	114,371
	\$ 121,561	\$ 242,116

Rental expense, including amounts related to these operating leases and other shorter-term arrangements, amounted to \$43.9 million in 2011, \$41.6 million in 2010 and \$43.3 million in 2009.

Royalties are paid to lessors either as a fixed price per ton or as a percentage of the gross sales price of the mined coal. Royalties under the majority of the Company's significant leases are paid on a percentage royalty basis. Royalty expense, including production royalties, was \$349.0 million in 2011, \$286.8 million in 2010 and \$230.5 million in 2009.

As of December 31, 2011, certain of the Company's lease obligations were secured by outstanding surety bonds totaling \$64.6 million.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22. Guarantees and Commitments**

The Company has agreed to continue to provide surety bonds and letters of credit for the reclamation and retiree healthcare obligations of Magnum Coal Company ("Magnum") related to the properties the Company sold to Magnum on December 31, 2005. Patriot Coal Corporation ("Patriot") acquired Magnum in July 2008. 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 to replace the obligations. If the surety bonds and letters of credit related to the reclamation obligations are not replaced by Magnum within a specified period of time, Magnum must post a letter of credit in favor of the Company in the amounts of the reclamation obligations. As of December 31, 2011, Patriot had replaced \$48.9 million of the surety bonds and posted letters of credit of \$16.1 million in the Company's favor. At December 31, 2011, the Company had \$38.5 million of surety bonds remaining related to properties sold to Magnum. The surety bonding amounts are mandated by the state and are not directly related to the estimated cost to reclaim the properties.

Magnum also acquired certain coal supply contracts with customers who did not consent to the assignment of the contract from the Company to Magnum. The Company has committed to purchase coal from Magnum to fulfill these contracts at the same price it is charging the customers for the sale. In addition, certain contracts were assigned to Magnum, but the Company has guaranteed Magnum's performance under the contracts. The longest of the coal supply contracts extends to the year 2017. 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 contracts from its existing operations. At market prices effective at December 31, 2011, the cost of purchasing 9.8 million tons of coal to supply over their duration the contracts that were not assigned would exceed the sales price under the contracts by approximately \$199.4 million, and the cost of purchasing 0.7 million tons of coal to supply over their duration the assigned and guaranteed contracts would exceed the sales price under the contracts by approximately \$15.3 million. As the Company does not believe that it is probable that it would have to purchase replacement coal, no losses have been recorded in the consolidated financial statements as of December 31, 2011. 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 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 \$19.3 million at December 31, 2011, which is not recorded as a liability in the Company's consolidated 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.

The Company has unconditional purchase obligations relating to purchases of coal, materials and supplies and capital commitments, other than reserve acquisitions, and is also a party to transportation capacity commitments. The future commitments under these agreements total \$487.5 million in 2012, \$139.2 million in 2013, \$175.0 million in 2014, \$163.9 million in 2015, \$128.3 million in 2016 and \$154.8 million thereafter. These commitments include the cost of coal purchases from Magnum as discussed above. During the years ended December 31, 2011, 2010 and 2009, the Company fulfilled its commitments under agreements containing unconditional obligations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Contingencies

The following matters relate to certain claims and legal actions involving ICG and/or its subsidiaries.

Allegheny Energy Supply ("Allegheny"), the sole customer of coal produced at our subsidiary Wolf Run Mining Company's ("Wolf Run") Sycamore No. 2 mine, filed a lawsuit against Wolf Run, Hunter Ridge Holdings, Inc. ("Hunter Ridge"), and ICG in state court in Allegheny County, Pennsylvania on December 28, 2006, and amended its complaint on April 23, 2007. Allegheny claimed that Wolf Run breached a coal supply contract when it declared force majeure under the contract upon idling the Sycamore No. 2 mine in the third quarter of 2006, and that Wolf Run continued to breach the contract by failing to ship in volumes referenced in the contract. The Sycamore No. 2 mine was idled after encountering adverse geologic conditions and abandoned gas wells that were previously unidentified and unmapped. After extensive searching for gas wells and rehabilitation of the mine, it was re-opened in 2007, but with notice to Allegheny that it would necessarily operate at reduced volumes in order to safely and effectively avoid the many gas wells within the reserve. The amended complaint also alleged that the production stoppages constitute a breach of the guarantee agreement by Hunter Ridge and breach of certain representations made upon entering into the contract in early 2005. Allegheny voluntarily dropped the breach of representation claims later. Allegheny claimed that it would incur costs in excess of \$100 million to purchase replacement coal over the life of the contract. ICG, Wolf Run and Hunter Ridge answered the amended complaint on August 13, 2007, disputing all of the remaining claims.

On November 3, 2008, ICG, Wolf Run and Hunter Ridge filed an amended answer and counterclaim against the plaintiffs seeking to void the coal supply agreement due to, among other things, fraudulent inducement and conspiracy. On September 23, 2009, Allegheny filed a second amended complaint alleging several alternative theories of liability in its effort to extend contractual liability to ICG, which was not a party to the original contract and did not exist at the time Wolf Run and Allegheny entered into the contract. No new substantive claims were asserted. ICG answered the second amended complaint on October 13, 2009, denying all of the new claims. The Company's counterclaim was dismissed on motion for summary judgment entered on May 11, 2010. Allegheny's claims against ICG were also dismissed by summary judgment, but the claims against Wolf Run and Hunter Ridge were not. The court conducted a non-jury trial of this matter beginning on January 10, 2011 and concluding on February 1, 2011. At the trial, Allegheny presented its evidence for breach of contract and claimed that it is entitled to past and future damages in the aggregate of between \$228 million and \$377 million. Wolf Run and Hunter Ridge presented their defense of the claims, including evidence with respect to the existence of force majeure conditions and excuse under the contract and applicable law. Wolf Run and Hunter Ridge presented evidence that Allegheny's damages calculations were significantly inflated because it did not seek to determine damages as of the time of the breach and in some instances artificially assumed future nondelivery or did not take into account the apparent requirement to supply coal in the future. On May 2, 2011, the trial court entered a Memorandum and Verdict determining that Wolf Run had breached the coal supply contract and that the performance shortfall was not excused by force majeure. ICG and Allegheny filed post-verdict motions in the trial court and on August 23, 2011, the court denied the parties' motions. The court entered a final judgment on August 25, 2011, in the amount of \$104.1 million, which included pre-judgment interest. The parties appealed the lower court's decision to the Superior Court of Pennsylvania. Wolf Run and Hunter Ridge have filed an appeal bond in the amount of \$124.9 million. Briefing is underway and will be completed in early 2012.

As of December 31, 2011, the Company has accrued \$108.3 million for this lawsuit, including \$3.4 million of interest recognized post-acquisition. The ultimate resolution of this matter could result in an outcome which may be materially different than what the Company has accrued.

In addition, 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, other than as noted above, will not have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****24. Segment Information**

The Company has three reportable business segments, which are based on the major coal producing basins in which the Company operates. Each of these reportable business segments includes a number of mine complexes. The Company manages its coal sales by coal basin, not by individual mine complex. Geology, coal transportation routes to customers, regulatory environments and coal quality are characteristic to a basin. Accordingly, market and contract pricing have developed by coal basin. Mine operations are evaluated based on their per-ton operating costs (defined as including all mining costs but excluding pass-through transportation expenses), as well as on other non-financial measures, such as safety and environmental performance. The Company's reportable segments are the Powder River Basin (PRB) segment, with operations in Wyoming; the Western Bituminous (WBIT) segment, with operations in Utah, Colorado and southern Wyoming; the Appalachia (APP) segment, with operations in West Virginia, Kentucky, Maryland and Virginia. The Appalachia segment includes the acquired ICG operations in Appalachia, as well as the Company's previous Central Appalachia segment. The "Other" operating segment represents primarily the Company's Illinois operations and ADDCAR subsidiary, which manufactures and sells its patented highwall mining system.

Operating segment results for the years ended December 31, 2011, 2010 and 2009 are presented below. Results for the reportable segments include all direct costs of mining, including all depreciation, depletion and amortization related to the mining operations, even if the assets are not recorded at the operating segment level. See discussion of segment assets below. Corporate, Other and Eliminations includes the change in fair value of coal derivatives and coal trading activities, net; corporate overhead; land management; other support functions; and the elimination of intercompany transactions.

The asset amounts below represent an allocation of assets used in the segments' cash-generating activities. The amounts in Corporate, Other and Eliminations represent primarily corporate assets (cash, receivables, investments, plant, property and equipment) as well as unassigned coal reserves, above-market acquired sales contracts and other unassigned assets.

	PRB	APP	WBIT	Other Operating Segments	Corporate, Other and Eliminations	Consolidated
(In thousands)						
December 31, 2011						
Revenues	\$ 1,646,947	\$ 1,915,090	\$ 672,766	\$ 51,092	\$	\$ 4,285,895
Income (loss) from operations	180,730	283,404	119,665	(4,685)	(165,538)	413,576
Total assets	2,307,783	4,740,723	681,393	581,040	1,903,020	10,213,959
Depreciation, depletion and amortization	171,693	203,759	81,235	7,876	2,024	466,587
Amortization of acquired sales contracts, net	19,458	(39,988)		(1,539)		(22,069)
Capital expenditures	110,999	217,435	66,356	28,243	117,903	540,936
December 31, 2010						
Revenues	\$ 1,606,236	\$ 1,042,490	\$ 537,542	\$	\$	\$ 3,186,268
Income from operations	146,555	193,943	58,082		(74,596)	323,984
Total assets	2,295,786	706,624	677,611		1,200,748	4,880,769
Depreciation, depletion and amortization	185,218	97,764	80,497		1,587	365,066
Amortization of acquired sales contracts, net	35,606					35,606
Capital expenditures	38,142	70,839	65,470		140,206	314,657
December 31, 2009						
Revenues	\$ 1,205,492	\$ 829,895	\$ 540,694	\$	\$	\$ 2,576,081
Income from operations	82,341	105,241	29,722		(93,590)	123,714
Total assets	2,421,917	734,309	687,873		996,497	4,840,596
Depreciation, depletion and amortization	127,378	88,409	83,781		2,040	301,608
Amortization of acquired sales contracts, net	19,934		(311)			19,623
Capital expenditures	58,275	48,673	67,299		148,903	323,150

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Year Ended December 31		
	2011	2010	2009
	(In thousands)		
Income from operations	\$ 413,576	\$ 323,984	\$ 123,714
Interest expense	(230,186)	(142,549)	(105,932)
Interest income	3,309	2,449	7,622
Bridge financing costs related to ICG	(49,490)		
Loss on early extinguishment of debt	(1,958)	(6,776)	
Income before income taxes	\$ 135,251	\$ 177,108	\$ 25,404

25. Quarterly Financial Information (Unaudited)

Quarterly financial data for the years ended December 31, 2011 and 2010 is summarized below:

	March 31	June 30	September 30	December 31
		(a)(b)	(a)(b)	(a)
	(In thousands, except per share data)			
2011:				
Revenues	\$ 872,938	\$ 985,528	\$ 1,198,673	\$ 1,228,756
Gross profit	129,773	171,440	118,974	153,280
Income from operations	102,238	95,354	76,256	139,728
Net income	55,874	6,630	9,121	71,215
Basic earnings per common share	0.34	0.04	0.04	0.34
Diluted earnings per common share	0.34	0.04	0.04	0.33
	March 31	June 30	September 30	December 31
		(c)	(d)	
	(In thousands, except per share data)			
2010:				
Revenues	\$ 711,874	\$ 764,295	\$ 874,705	\$ 835,394
Gross profit	61,852	100,461	119,957	107,514
Income from operations	32,200	106,499	98,347	86,938
Net income (loss)	(1,770)	66,274	46,859	48,031
Basic earnings (loss) per common share	(0.01)	0.41	0.29	0.29
Diluted earnings (loss) per common share	(0.01)	0.41	0.29	0.29

(a) The Company expensed costs related to the acquisition of ICG \$98.2 million, \$4.7 million and \$1.3 million in the second, third and fourth quarters of 2011, respectively.

(b) The amounts above differ from those previously reported because of fair value adjustments related to the ICG acquisition made in the fourth quarter of 2011 and pushed back to the respective reporting periods. Net income in the second quarter of 2011 decreased \$4.8 million, using an effective tax rate of 37%, from what was originally reported due to increases in cost of sales and depreciation, depletion and amortization expense and net income in the third quarter of 2011 decreased \$10.2 million, using an effective tax rate of 37%, from what was originally reported due to an increase in depreciation, depletion and amortization expense.

(c)

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In the second quarter of 2010, the Company exchanged 68.4 million tons of coal reserves in the Illinois Basin for an additional 9% ownership interest in Knight Hawk. The Company recognized a gain of \$41.6 million on the transaction.

(d)

The Company's Dugout Canyon mine in Carbon County, Utah suspended operations on April 29, 2010 after an increase in carbon monoxide levels resulted from a heating event in a previously mined area. After permanently sealing the area, full coal production resumed on May 21, 2010. On June 22, 2010, an ignition event at the longwall resulted in a second evacuation of all underground employees at the mine. All employees were safely evacuated in both events. The resumption of mining required rendering the mine's atmosphere inert, ventilating the longwall area, determining the cause of the ignition, implementing preventive measures, and securing an MSHA-approved longwall ventilation plan. The longwall system resumed production at normalized levels by the end of September.

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Year Ended December 31, 2011****26. Supplemental Condensed Consolidating Financial Information**

Pursuant to the indentures governing Arch Coal, Inc.'s senior notes, certain wholly-owned subsidiaries of the Company have fully and unconditionally guaranteed the senior notes on a joint and several basis. The following tables present condensed consolidating financial information for (i) the Company, (ii) the issuer of the senior notes, (iii) the guarantors under the senior notes, and (iv) the entities which are not guarantors under the senior notes (Arch Western Resources, LLC and its subsidiaries, Arch Receivable Company, LLC and the Company's subsidiaries outside the U.S.):

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
REVENUES	\$	\$ 2,024,168	\$ 2,261,727	\$	\$ 4,285,895
COSTS, EXPENSES AND OTHER					
Cost of sales	22,925	1,537,697	1,812,461	(105,173)	3,267,910
Depreciation, depletion and amortization	2,883	304,742	158,962		466,587
Amortization of acquired sales contracts, net		(41,527)	19,458		(22,069)
Selling, general and administrative expenses	74,591	13,860	37,839	(7,234)	119,056
Change in fair value of coal derivatives and coal trading activities, net		(2,907)			(2,907)
Acquisition and transition costs	54,676				54,676
Other operating (income) expense, net	(23,306)	(118,767)	18,732	112,407	(10,934)
	131,769	1,693,098	2,047,452		3,872,319
Income from investment in subsidiaries	556,448			(556,448)	
Income from operations	424,679	331,070	214,275	(556,448)	413,576
Interest income (expense), net:					
Interest expense	(256,220)	(5,062)	(43,728)	74,824	(230,186)
Interest income	16,282	759	61,092	(74,824)	3,309
	(239,938)	(4,303)	17,364		(226,877)
Other non-operating expense					
Bridge financing costs related to ICG	(49,490)				(49,490)
Net loss resulting from early retirement of debt		(1,958)			(1,958)
	(49,490)	(1,958)			(51,448)
Income before income taxes	135,251	324,809	231,639	(556,448)	135,251
Benefit from income taxes	(7,589)				(7,589)
Net income	142,840	324,809	231,639	(556,448)	142,840
Less: Net income attributable to noncontrolling interest	(1,157)				(1,157)
Net income attributable to Arch Coal	\$ 141,683	\$ 324,809	\$ 231,639	\$ (556,448)	\$ 141,683

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Year Ended December 31, 2010**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
REVENUES	\$	\$ 1,137,980	\$ 2,048,288	\$	\$ 3,186,268
COSTS, EXPENSES AND OTHER					
Cost of sales	11,526	797,917	1,679,872	(93,503)	2,395,812
Depreciation, depletion and amortization	2,933	194,847	167,286		365,066
Amortization of acquired sales contracts, net			35,606		35,606
Selling, general and administrative expenses	79,580	7,355	38,496	(7,254)	118,177
Change in fair value of coal derivatives and coal trading activities, net		8,924			8,924
Gain on Knight Hawk transaction		(41,577)			(41,577)
Other operating (income) expense, net	(10,259)	(115,994)	5,772	100,757	(19,724)
	83,780	851,472	1,927,032		2,862,284
Income from investment in subsidiaries	393,366			(393,366)	
Income from operations	309,586	286,508	121,256	(393,366)	323,984
Interest expense, net:					
Interest expense	(143,606)	(2,763)	(64,463)	68,283	(142,549)
Interest income	11,128	456	59,148	(68,283)	2,449
	(132,478)	(2,307)	(5,315)		(140,100)
Other non-operating expense					
Net loss resulting from early retirement of debt			(6,776)		(6,776)
			(6,776)		(6,776)
Income before income taxes	177,108	284,201	109,165	(393,366)	177,108
Provision for income taxes	17,714				17,714
Net income	159,394	284,201	109,165	(393,366)	159,394
Less: Net income attributable to noncontrolling interest	(537)				(537)
Net income attributable to Arch Coal	\$ 158,857	\$ 284,201	\$ 109,165	\$ (393,366)	\$ 158,857

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Year Ended December 31, 2009

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
REVENUES	\$	\$ 924,692	\$ 1,651,389	\$	\$ 2,576,081
COSTS, EXPENSES AND OTHER					
Cost of sales	7,481	713,782	1,398,663	(49,211)	2,070,715
Depreciation, depletion and amortization	3,678	138,125	159,805		301,608
Amortization of acquired sales contracts, net			19,623		19,623
Selling, general and administrative expenses	49,672	7,504	46,563	(5,952)	97,787
Change in fair value of coal derivatives and coal trading activities, net		(12,056)			(12,056)
Acquisition and transition costs	13,726				13,726
Other operating (income) expense, net	(12,909)	(85,460)	4,170	55,163	(39,036)
	61,648	761,895	1,628,824		2,452,367
Income from investment in subsidiaries	165,183			(165,183)	
Income from operations	103,535	162,797	22,565	(165,183)	123,714
Interest expense, net:					
Interest expense	(92,371)	(2,442)	(70,668)	59,549	(105,932)
Interest income	14,240	720	52,211	(59,549)	7,622
	(78,131)	(1,722)	(18,457)		(98,310)
Income before income taxes	25,404	161,075	4,108	(165,183)	25,404
Benefit from income taxes	(16,775)				(16,775)
Net income	42,179	161,075	4,108	(165,183)	42,179
Less: Net income attributable to noncontrolling interest		(10)			(10)
Net income attributable to Arch Coal	\$ 42,169	\$ 161,075	\$ 4,108	\$ (165,183)	\$ 42,169

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS
December 31, 2011

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Cash and cash equivalents	\$ 61,375	\$ 332	\$ 76,442	\$	\$ 138,149
Restricted cash	10,322				10,322
Receivables	65,187	22,037	383,572	(1,617)	469,179
Inventories		207,050	170,440		377,490
Other	81,732	83,122	22,780		187,634
Total current assets	218,616	312,541	653,234	(1,617)	1,182,774
Property, plant and equipment, net	21,241	6,403,658	1,524,251		7,949,150
Investment in subsidiaries	8,805,731			(8,805,731)	
Intercompany receivables	(1,457,864)	7,010	1,450,854		
Note receivable from Arch Western	225,000			(225,000)	
Other	184,266	884,613	13,156		1,082,035
Total other assets	7,757,133	891,623	1,464,010	(9,030,731)	1,082,035
Total assets	\$ 7,996,990	\$ 7,607,822	\$ 3,641,495	(9,032,348)	\$ 10,213,959
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable	\$ 25,409	\$ 175,196	\$ 183,177	\$	\$ 383,782
Accrued expenses and other current liabilities	75,133	115,685	166,834	(1,617)	356,035
Current maturities of debt and short-term borrowings	172,564	1,987	106,300		280,851
Total current liabilities	273,106	292,868	456,311	(1,617)	1,020,668
Long-term debt	3,308,674	2,652	450,971		3,762,297
Note payable to Arch Coal			225,000	(225,000)	
Asset retirement obligations	877	140,861	305,046		446,784
Accrued pension benefits	19,198	4,203	24,843		48,244
Accrued postretirement benefits other than pension	13,843	6,271	22,195		42,309
Accrued workers' compensation	17,272	48,111	6,565		71,948
Deferred income taxes	621,483	355,270			976,753
Other noncurrent liabilities	152,963	64,795	37,624		255,382
Total liabilities	4,407,416	915,031	1,528,555	(226,617)	6,624,385
Redeemable noncontrolling interest	11,534				11,534
Stockholders' equity	3,578,040	6,692,791	2,112,940	(8,805,731)	3,578,040
Total liabilities and stockholders' equity	\$ 7,996,990	\$ 7,607,822	\$ 3,641,495	(9,032,348)	\$ 10,213,959

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING BALANCE SHEETS
December 31, 2010**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Cash and cash equivalents	\$ 13,713	\$ 64	\$ 79,816	\$	\$ 93,593
Receivables	31,458	12,740	210,075	(1,953)	252,320
Inventories		85,196	150,420		235,616
Other	29,575	102,375	21,435		153,385
Total current assets	74,746	200,375	461,746	(1,953)	734,914
Property, plant and equipment, net	9,817	1,800,578	1,498,497		3,308,892
Investment in subsidiaries	4,555,233			(4,555,233)	
Intercompany receivables	(1,807,902)	508,624	1,299,278		
Note receivable from Arch Western	225,000			(225,000)	
Other	481,345	344,698	10,920		836,963
Total other assets	3,453,676	853,322	1,310,198	(4,780,233)	836,963
Total assets	\$ 3,538,239	\$ 2,854,275	\$ 3,270,441	\$ (4,782,186)	\$ 4,880,769
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable	\$ 10,753	\$ 65,793	\$ 121,670	\$	\$ 198,216
Accrued expenses and other current liabilities	75,746	31,123	153,217	(1,953)	258,133
Current maturities of debt and short-term borrowings	14,093		56,904		70,997
Total current liabilities	100,592	96,916	331,791	(1,953)	527,346
Long-term debt	1,087,126		451,618		1,538,744
Note payable to Arch Coal			225,000	(225,000)	
Asset retirement obligations	873	32,029	301,355		334,257
Accrued pension benefits	20,843	4,407	23,904		49,154
Accrued postretirement benefits other than pension	14,284		23,509		37,793
Accrued workers' compensation	15,383	13,805	6,102		35,290
Other noncurrent liabilities	51,187	22,135	36,912		110,234
Total liabilities	1,290,288	169,292	1,400,191	(226,953)	2,632,818
Redeemable noncontrolling interest	10,444				10,444
Stockholders' equity	2,237,507	2,684,983	1,870,250	(4,555,233)	2,237,507
Total liabilities and stockholders' equity	\$ 3,538,239	\$ 2,854,275	\$ 3,270,441	\$ (4,782,186)	\$ 4,880,769

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended December 31, 2011**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(In thousands)					
Cash provided by (used in) operating activities	\$ (561,704)	\$ 801,201	\$ 402,745	\$	\$ 642,242
Investing Activities					
Acquisitions of businesses, net of cash acquired	(2,894,339)				(2,894,339)
Decrease in restricted cash	5,167				5,167
Capital expenditures	(12,809)	(353,441)	(174,686)		(540,936)
Proceeds from dispositions of property, plant and equipment		25,730	157		25,887
Additions to prepaid royalties		(25,982)	(3,975)		(29,957)
Purchases of investments and advances to affiliates	(633,534)	(33,553)		605,178	(61,909)
Consideration paid related to prior business acquisitions	(829)				(829)
Cash used in investing activities	(3,536,344)	(387,246)	(178,504)	605,178	(3,496,916)
Financing Activities					
Proceeds from the issuance of senior notes	2,000,000				2,000,000
Proceeds from the issuance of common stock, net	1,267,933				1,267,933
Contributions from parent		605,178		(605,178)	
Payments to retire debt		(605,178)			(605,178)
Net increase (decrease) in borrowings under lines of credit and commercial paper program	481,300		(56,904)		424,396
Net proceeds from other debt	5,334				5,334
Debt financing costs	(114,799)		(24)		(114,823)
Dividends paid	(80,748)				(80,748)
Issuance of common stock under incentive plans	2,316				2,316
Transactions with affiliates, net	584,374	(413,687)	(170,687)		
Cash provided by (used in) financing activities	4,145,710	(413,687)	(227,615)	(605,178)	2,899,230
Increase (decrease) in cash and cash equivalents	47,662	268	(3,374)		44,556
Cash and cash equivalents, beginning of period	13,713	64	79,816		93,593
Cash and cash equivalents, end of period	\$ 61,375	\$ 332	\$ 76,442	\$	\$ 138,149

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended December 31, 2010**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
	(In thousands)			
Cash provided by (used in) operating activities	\$ (238,736)	\$ 503,766	\$ 432,117	\$ 697,147
Investing Activities				
Capital expenditures	(4,814)	(198,243)	(111,600)	(314,657)
Proceeds from dispositions of property, plant and equipment		251	79	330
Additions to prepaid royalties		(24,381)	(2,974)	(27,355)
Purchases of investments and advances to affiliates	(40,421)	(5,764)		(46,185)
Consideration paid related to prior business acquisitions	(1,262)			(1,262)
Cash used in investing activities	(46,497)	(228,137)	(114,495)	(389,129)
Financing Activities				
Proceeds from the issuance of senior notes	500,000			500,000
Payments to retire debt			(505,627)	(505,627)
Net decrease in borrowings under lines of credit and commercial paper program	(120,000)		(76,549)	(196,549)
Net proceeds from other debt	82			82
Debt financing costs	(12,022)		(729)	(12,751)
Dividends paid	(63,373)			(63,373)
Issuance of common stock under incentive plans	1,764			1,764
Contribution from noncontrolling interest			891	891
Transactions with affiliates, net	(61,760)	(275,629)	337,389	
Cash provided by (used in) financing activities	244,691	(275,629)	(244,625)	(275,563)
Increase (decrease) in cash and cash equivalents	(40,542)		72,997	32,455
Cash and cash equivalents, beginning of period	54,255	64	6,819	61,138
Cash and cash equivalents, end of period	\$ 13,713	\$ 64	\$ 79,816	\$ 93,593

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended December 31, 2009**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
	(In thousands)			
Cash provided by (used in) operating activities	\$ (168,427)	\$ 338,956	\$ 212,451	\$ 382,980
Investing Activities				
Acquisitions of businesses, net of cash acquired	(768,819)			(768,819)
Capital expenditures	(2,940)	(194,756)	(125,454)	(323,150)
Proceeds from dispositions of property, plant and equipment		734	91	825
Additions to prepaid royalties		(23,991)	(2,764)	(26,755)
Purchases of investments and advances to affiliates	(8,000)	(2,925)		(10,925)
Consideration paid related to prior business acquisitions	(4,767)			(4,767)
Reimbursement of deposits on equipment			3,209	3,209
Cash used in investing activities	(784,526)	(220,938)	(124,918)	(1,130,382)
Financing Activities				
Proceeds from the issuance of senior notes	584,784			584,784
Proceeds from the sale of common stock, net	326,452			326,452
Net decrease in borrowings under lines of credit and commercial paper program	(85,000)		(815)	(85,815)
Net payments on other debt	(2,986)			(2,986)
Debt financing costs	(29,456)		(203)	(29,659)
Dividends paid	(54,969)			(54,969)
Issuance of common stock under incentive plans	84			84
Transactions with affiliates, net	200,562	(118,015)	(82,547)	
Cash provided by (used in) financing activities	939,471	(118,015)	(83,565)	737,891
Increase (decrease) in cash and cash equivalents	(13,482)	3	3,968	(9,511)
Cash and cash equivalents, beginning of period	67,737	61	2,851	70,649
Cash and cash equivalents, end of period	\$ 54,255	\$ 64	\$ 6,819	\$ 61,138

Arch Coal, Inc. and Subsidiaries

Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions (Reductions) Charged to Costs and Expenses	Charged to Other Accounts	Deductions ^(a)	Balance at End of Year
(In thousands)					
Year ended December 31, 2011					
Reserves deducted from asset accounts:					
Other assets other notes and accounts receivable	\$	\$ 17	\$	\$	\$ 17
Current assets supplies and inventory	12,701	1,755		1,349	13,107
Deferred income taxes	737	2,416		322	2,831
Year ended December 31, 2010					
Reserves deducted from asset accounts:					
Other assets other notes and accounts receivable	\$ 109	\$	\$	\$ 109	\$
Current assets supplies and inventory	13,406	1,962		2,667	12,701
Deferred income taxes	1,120	(383)			737
Year ended December 31, 2009					
Reserves deducted from asset accounts:					
Other assets other notes and accounts receivable	\$ 225	\$ (17)	\$	\$ 99	\$ 109
Current assets supplies and inventory	12,760	1,302		656	13,406
Deferred income taxes	395	725			1,120

(a) Reserves utilized, unless otherwise indicated.