

Edgar Filing: ARCH COAL INC - Form 10-K

ARCH COAL INC  
Form 10-K  
March 13, 2003

-----  
-----  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
-----  
FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2002

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-13105

ARCH COAL, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(State or other jurisdiction  
of incorporation or organization)

43-0921172  
(IRS Employer  
Identification No.)

ONE CITYPLACE DRIVE, SUITE 300, ST. LOUIS, MO  
(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:

COMMON STOCK, \$.01 PAR VALUE	NEW YORK STOCK EXCHANGE
PREFERRED SHARE PURCHASE RIGHTS	NEW YORK STOCK EXCHANGE
5% PERPETUAL CUMULATIVE CONVERTIBLE PREFERRED STOCK	NONE
Title of Each Class	Name of Each Exchange On Which Registered

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of

## Edgar Filing: ARCH COAL INC - Form 10-K

1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [ ]

At December 31, 2002, based on the closing price of the registrant's common stock on the New York Stock Exchange on that date, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$813,860,138. In determining this amount, the registrant has assumed that all of its executive officers and directors, and persons known to it to be the beneficial owners of more than five percent of its common stock, are affiliates. Such assumption shall not be deemed conclusive for any other purpose.

At March 1, 2003, there were 52,434,170 shares of the registrant's common stock outstanding.

Documents incorporated by reference:

1. Portions of the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission no later than April 1, 2003, are incorporated by reference into Part III of this Form 10-K.
2. Portions of the registrant's Annual Report to Stockholders for the year ended December 31, 2002 are incorporated by reference into Parts I, II and IV of this Form 10-K.

---

---

### TABLE OF CONTENTS

	PAGE
	----
PART I	
ITEM 1. BUSINESS.....	1
ITEM 2. PROPERTIES.....	8
ITEM 3. LEGAL PROCEEDINGS.....	10
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	10
PART II	
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.....	11
ITEM 6. SELECTED FINANCIAL DATA.....	11
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	11
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.....	11
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.....	11
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.....	11
PART III	
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.....	11
ITEM 11. EXECUTIVE COMPENSATION.....	11
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....	12
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	12

## Edgar Filing: ARCH COAL INC - Form 10-K

ITEM 14.	CONTROLS AND PROCEDURES.....	12
PART IV		
ITEM 15.	EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.....	12

### PART I

#### ITEM 1. BUSINESS

##### GENERAL

Arch Coal, Inc. ("Arch Coal" or the "Company") is one of the largest coal producers in the United States. The Company mines, processes and markets compliance and low-sulfur coal from mines located in both the eastern and western United States, enabling it to ship coal cost-effectively to most of the major domestic coal-fired electric generation facilities. As of December 31, 2002, the Company had 25 operating mines and controlled approximately 2.9 billion tons of proven and probable coal reserves. Arch Coal sold 106.7 million tons of coal in 2002. The Company sells substantially all of its coal to producers of electric power.

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

##### BUSINESS ENVIRONMENT

United States Coal Markets. Production of coal in the United States has increased from 434 million tons in 1960 to about 1.1 billion tons in 2002. The following table sets forth demand trends for United States coal by consuming sector through 2025 as compiled, preliminary(p) or forecasted(f) by the United States Department of Energy/Energy Information Agency.

CONSUMPTION BY SECTOR	2000	2001	2002 (P)	2005 (F)	2010 (F)	2015 (F)
-----	----	----	-----	-----	-----	-----
	(TONS IN MILLIONS)					
Electric Generation.....	983	957	965	1,012	1,123	1,188
Industrial.....	65	63	61	64	66	66
Steel Production.....	29	26	23	25	24	24
Residential/Commercial.....	4	4	4	5	5	5
Export.....	58	49	41	39	35	35
	-----	-----	-----	-----	-----	-----
Total.....	1,139	1,099	1,094	1,145	1,253	1,313
	=====	=====	=====	=====	=====	=====

Electricity Generation. Coal has consistently maintained a 49% to 53% market share over competing energy sources to generate electricity during the past ten years because of its relatively low cost and its availability

## Edgar Filing: ARCH COAL INC - Form 10-K

throughout the United States. Coal is the lowest cost fossil-fuel used for base-load electric power generation -- considerably less expensive than natural gas or oil. Coal-fired generation is also competitive with nuclear power generation, especially on an all-in cost per megawatt-hour basis. Hydroelectric power is inexpensive but is limited by both geography and susceptibility to seasonal and climatic conditions. Non hydropower renewable power generation accounts for less than 6% of all the electricity generated in the U.S. and is limited by resources and/or technology. Consequently, approximately 88% of the coal produced in the United States in 2002 was sold in the domestic market as a fuel to the electric generation segment. The remainder of the tons were sold in 2002 as steam coal for industrial and residential purposes, into the export market, and as metallurgical coal. In addition to the relative competitiveness of coal-fired generation plants, coal consumption patterns are also influenced by the demand for electricity, governmental regulation

1

impacting coal production and power generation, technological developments and the location, availability and quality of competing sources of coal, as well as other fuels such as natural gas, oil and nuclear and alternative energy sources such as hydroelectric power.

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

According to the Energy Information Agency, coal is expected to remain the primary fuel for electricity generation through 2025. The following table sets forth the source fuel for electricity generation from 1990 through 2025 as compiled, preliminary(p), annualized(a) or forecasted(f) by the Energy Information Agency.

	1990	1995	2000	2002 (A)	2005 (F)	2010 (F)	2015 (F)
	----	----	----	-----	-----	-----	-----
	(BILLION KILOWATT HOURS)						
Coal.....	1,590	1,710	1,968	1,919	2,020	2,222	2,368
Petroleum.....	124	75	109	91	34	43	47
Natural Gas.....	378	499	597	703	685	875	1,087
Nuclear.....	577	673	754	786	793	800	805
Hydro/Renewable/other.....	356	401	373	382	341	355	369
Total.....	-----	-----	-----	-----	-----	-----	-----
	=====	=====	=====	=====	=====	=====	=====
	3,025	3,358	3,801	3,881	3,873	4,295	4,676

Coal's primary advantage is its relatively low cost compared to other fuels used to generate electricity. The following table sets forth the Energy Information Agency's forecast of delivered fuel prices to electric utilities through 2025 as compiled, preliminary(p) or forecasted(f) by the Energy Information Agency. The data-set is derived from the Energy Information Agency's Long-Term forecast published in December 2002 and is presented in 2001 dollars.

	2000	2001	2002 (P)	2005 (F)	2010 (F)	2015 (F)	2020 (F)
	----	----	-----	-----	-----	-----	-----
	(DOLLARS PER MILLION BTUS)						

Edgar Filing: ARCH COAL INC - Form 10-K

ANNUAL ENERGY OUTLOOK

Petrol (Residual).....	\$4.39	\$4.50	\$3.72	\$3.85	\$3.97	\$4.07	\$4.14
Natural Gas.....	4.42	4.78	3.47	3.27	3.79	4.14	4.14
Coal.....	1.23	1.25	1.22	1.22	1.17	1.15	1.15

2

Coal Production. United States coal production was 1.1 billion tons in 2002. The following table, derived from data prepared by the Energy Information Agency, sets forth principal United States production statistics for the periods indicated.

	1980	1985	1990	1995	1999	2000
	----	----	----	----	----	----
TOTAL TONS (IN MILLIONS).....	830	884	1,029	1,033	1,100	1,074
East.....	566	554	627	544	530	508
West.....	264	330	402	489	570	566
Underground.....	329	349	424	396	389	374
Surface.....	501	555	605	637	711	700
PERCENT OF TOTAL TONS						
East.....	68%	63%	61%	53%	48%	47%
West.....	32	37	39	47	52	53
Underground.....	40	39	41	38	35	35
Surface.....	60	61	59	62	65	65
NUMBER OF MINES (FROM RDI)						
Underground.....	1,875	1,695	1,422	977	749	707
Surface.....	1,997	1,660	1,285	1,127	842	746
Total.....	3,872	3,355	2,707	2,104	1,591	1,453
AVERAGE NUMBER OF MINE EMPLOYEES (FROM RDI)						
Underground.....	150,328	107,357	63,960	44,254	35,080	31,825
Surface.....	74,610	61,924	43,402	31,777	27,136	24,640
AVERAGE PRODUCTION PER MINE (TONS IN THOUSANDS)						
Underground.....	177	203	297	402	514	531
Surface.....	249	325	472	568	850	935

SALES AND MARKETING

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

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

Provisions permitting renegotiation or modification of coal sale prices are present in many of the Company's more recently negotiated long-term contracts

## Edgar Filing: ARCH COAL INC - Form 10-K

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

3

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

A factor that may impact the Company's sale of coal in the future is the development of coal commodity trading. The New York Mercantile Exchange has initiated both electricity commodity trading and coal contract trading. The coal contract trading is based on a Huntington, West Virginia barge loading hub. In addition, some brokerage and marketing firms have entered the coal markets and devised transactions that mimic commodity activity. Today, limited over-the-counter trading is being conducted on both firm-forward transactions as well as put, call and other options. A trend to more commodity-type transactions could mark a significant change in how coal is sold. The Company is unable to predict whether this trend will have a material effect on its sales and whether any such effect would be positive or negative on its operating results.

### COMPETITION

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

4

### OPERATIONS

As of December 31, 2002, the Company operated a total of 25 mines, all located in the United States. Coal is transported from the Company's mining complexes to customers by means of railroad cars, river barges or trucks, or a combination of these means of transportation. As is customary in the industry, virtually all the Company's coal sales are made F.O.B. mine or loadout, meaning that customers are responsible for the cost of transporting purchased coal to their facilities. The following table provides the location and a summary of information regarding the Company's principal mining complexes and the coal reserves associated with these operations as of December 31, 2002:

MINING COMPLEX (LOCATION)	CAPTIVE MINE(S) (1)	CONTRACT MINE(S)	MINING EQUIPMENT (2)	TRANSPORTATION	TONS SOLD IN 2002 (IN MILLION)
-----	-----	-----	-----	-----	-----

Edgar Filing: ARCH COAL INC - Form 10-K

CENTRAL APPALACHIA					
Mingo Logan (WV).....	U	U	LW, C	NS	4.5
Coal-Mac (WV).....	S	S	L	Barge/NS	2.1
Dal-Tex (WV) (3).....	--	--	--	CSX	--
Hobet 21 (WV).....	S	U	D, L, S, C(4)	CSX	5.3
Arch of West Virginia					
(WV).....	S	U	D, L, S, HW(5)	CSX	3.6
Samples (WV).....	S	U, S	D, L, S (6)	Barge/CSX	5.5
Campbells Creek (WV).....	--	U	--	Barge	1.1
Lone Mountain (KY).....	U(2)	--	C	NS/CSX	2.6
Pardee (VA).....	S, U	U	L, C	NS	1.6
WESTERN UNITED STATES					
Black Thunder (WY).....	S	--	D, S (7)	UP/BN	65.1
Coal Creek (WY) (8).....	--	--	--	UP/BN	--
West Elk (CO).....	U	--	LW, C	UP	6.7
Skyline (UT) (9).....	U	--	LW, C	UP	3.4
SUFCO (UT) (9).....	U	--	LW, C	UP	7.2
Dugout Canyon (UT) (9).....	U	--	LW, C	UP	2.0
Arch of Wyoming (WY).....	S(2)	--	D, S (10)	UP	0.6
Totals.....					111.3
					=====

MINING COMPLEX (LOCATION)	TOTAL ASSIGNED RECOVERABLE RESERVES		
	(IN THOUSANDS OF TONS)	PROVEN (IN THOUSANDS OF TONS)	PROBABLE (IN THOUSANDS OF TONS)
-----	-----	-----	-----
CENTRAL APPALACHIA			
Mingo Logan (WV).....	22,769	19,265	3,504
Coal-Mac (WV).....	17,682	17,539	143
Dal-Tex (WV) (3).....	100,475	72,807	27,668
Hobet 21 (WV).....	95,372	59,784	35,588
Arch of West Virginia			
(WV).....	29,413	28,496	917
Samples (WV).....	37,662	34,389	3,273
Campbells Creek (WV).....	9,899	9,809	90
Lone Mountain (KY).....	48,537	41,423	7,114
Pardee (VA).....	26,548	23,402	3,146
WESTERN UNITED STATES			
Black Thunder (WY).....	854,496	838,793	15,703
Coal Creek (WY) (8).....	233,324	227,268	6,056
West Elk (CO).....	112,014	88,180	23,834
Skyline (UT) (9).....	27,930	16,449	11,481
SUFCO (UT) (9).....	61,833	25,619	36,214
Dugout Canyon (UT) (9).....	35,694	26,099	9,595
Arch of Wyoming (WY).....	1,343	1,343	--
Totals.....			
	1,714,991	1,530,665	184,326
	=====	=====	=====

-----

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

## Edgar Filing: ARCH COAL INC - Form 10-K

- (1) Amounts in parenthesis indicate the number of captive and contract mines at the mining complex or location. Captive mines are mines which the Company owns and operates on land owned or leased by it. Contract mines are mines which other operators mine for the Company under contracts on land owned or leased by the Company.
- (2) Reported for captive operations only.
- (3) The Company idled its mining operations at the Dal-Tex complex on July 23, 1999 due to a delay in obtaining mining permits resulting from legal action in the U.S. District Court for the Southern District of West Virginia.
- (4) Utilizes an 83-cubic-yard dragline and a 51-cubic-yard shovel. A dragline is a large machine used in the surface mining process to remove layers of earth and rock covering coal.
- (5) Utilizes a 53-cubic-yard dragline, a 43-cubic-yard shovel, a 22-cubic-yard shovel and a 28-cubic-yard loader at the Ruffner mine.
- (6) Utilizes a 117-cubic-yard dragline, two 53-cubic-yard shovels and three 28-cubic-yard loaders.
- (7) Utilizes 164-cubic-yard, 130-cubic-yard, 78-cubic-yard and 45-cubic-yard draglines and 53-cubic-yard, 60-cubic-yard and 82-cubic-yard shovels.
- (8) The Company idled its mining operations at Coal Creek during the third quarter of 2000 because its cost structure was not competitive in the market environment that existed at that time.

5

- (9) Mines are operated by Canyon Fuel. Canyon Fuel is an equity investment and its financial statements and tons produced are not consolidated into the Company's financial statements and tons produced. Amounts represent 100% of Canyon Fuel's production and assigned reserves of which the Company has a 65% interest.
- (10) Utilizes 76-cubic-yard dragline at Medicine Bow and a 32-cubic-yard dragline at Seminoe II.
- (11) Reflects the cost of plant, equipment and development at the mine as of December 31, 2002.

### TRANSPORTATION

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

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

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

### REGULATIONS AFFECTING COAL MINING

The information contained in the "Contingencies -- Reclamation" and



## Edgar Filing: ARCH COAL INC - Form 10-K

"Certain Trends and Uncertainties -- Environmental and Regulatory Factors" sections of "Management's Discussion and Analysis" of the Company's 2002 Annual Report to Stockholders is incorporated herein by reference.

### GLOSSARY OF SELECTED MINING TERMS

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

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

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

**Coal Seam.** A bed or stratum of coal.

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

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

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

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

6

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

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

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

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

**Probable Reserves.** Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart; therefore, the

## Edgar Filing: ARCH COAL INC - Form 10-K

degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

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

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

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

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

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

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

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

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

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

### EMPLOYEES

As of March 1, 2003, the Company employed a total of approximately 3750 persons, approximately 600 of whom were represented by the UMWA under a collective bargaining agreement that expires in 2006 and approximately 160 of whom are represented by the Scotia Employees Association under a collective bargaining agreement that expires in 2003.

7

### EXECUTIVE OFFICERS

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

Bradley M. Allbritten, 45, is Vice President -- Marketing of the Company and has served in such capacity since August 2002. From March 2000 to February 2003, Mr. Allbritten was the Company's Vice President -- Human Resources. Mr. Allbritten served as the Company's Director of Human Resources from February 1999 through February 2000.

C. Henry Besten, Jr., 54, is Senior Vice President -- Strategic Development of the Company and has served in such capacity since December 2002. Mr. Besten is also President of the Company's Arch Energy Resources, Inc. subsidiary and has served in that capacity since July 1997. From July 1997 to December 2002, Mr. Besten served as Vice President -- Strategic Marketing of the Company. Mr.

## Edgar Filing: ARCH COAL INC - Form 10-K

Besten also served as Acting Chief Financial Officer of the Company from January 2000 to December 2000.

John W. Eaves, 45, is Executive Vice President and Chief Operating Officer of the Company and has served in such capacity since December 2002. From February 2000 to December 2002, Mr. Eaves served as Senior Vice President -- Marketing of the Company and from September 1995 to December 2002 as President of the Company's Arch Coal Sales Company, Inc. subsidiary. Mr. Eaves also served as Vice President -- Marketing of the Company from July 1997 through February 2000.

Sheila B. Feldman, 48, is Vice President -- Human Resources of the Company and has served in such capacity since February 2003.

Robert G. Jones, 46, is Vice President -- Law, General Counsel and Secretary of the Company and has served in such capacity since March 2000. Mr. Jones served the Company as Assistant General Counsel from July 1997 through February 2000 and as Senior Counsel from August 1993 to July 1997.

Steven F. Leer, 50, is President and Chief Executive Officer and a Director of the Company and has served in such capacity since 1992.

Robert J. Messey, 57, is Senior Vice President and Chief Financial Officer of the Company and has served in such capacity since December 2000.

David B. Peugh, 48, is Vice President -- Business Development of the Company and has served in such capacity since 1993.

Robert W. Shanks, 49, is Vice President -- Operations of the Company and has served in such capacity since July 1997. Since June 1998 he has also served as President of Arch Western Resources. During the past five years, Mr. Shanks has also served as President of the Company's Apogee Coal Company subsidiary.

Kenneth G. Woodring, 53, is Executive Vice President -- Mining Operations of the Company and has served in such capacity since July 1997.

### ITEM 2. PROPERTIES

The Company estimates that it owned or controlled, as of December 31, 2002, approximately 2.9 billion tons of proven and probable recoverable reserves. Recoverable reserves include only saleable coal and do not include coal which would remain unextracted, such as for support pillars, and processing losses, such as washery losses. Reserve estimates are prepared by the Company's engineers and geologists and reviewed and updated periodically. Total recoverable reserve estimates and reserves dedicated to mines and complexes change from time to time to reflect mining activities, analysis of new engineering and geological data, changes

8

in reserve holdings and other factors. The following table presents the Company's estimated recoverable coal reserves at December 31, 2002 (tonnage in millions):

	TOTAL RECOVERABLE RESERVES	PROVEN	PROBABLE	SULFUR CONTENT (LBS. PER MILLION BTUS)			RES OWNE
				<1.2	1.2-2.5	> 2.5	
Wyoming.....	1,568,565	1,372,847	195,718	1,460,857	99,799	7,909	1,477
Central Appalachia...	766,207	561,778	204,429	214,246	492,034	59,927	731
Illinois.....	257,094	187,432	69,662	--	--	257,094	36
Utah*.....	181,207	94,301	86,906	166,828	14,379	--	175
Colorado.....	154,338	121,549	32,789	152,256	2,082	--	149

Edgar Filing: ARCH COAL INC - Form 10-K

Total.....	2,927,411	2,337,907	589,504	1,994,187	608,294	324,930	2,570
	=====	=====	=====	=====	=====	=====	=====

MINING METHOD

	UNDERGROUND	SURFACE
Wyoming.....	164,302	1,404,263
Central Appalachia...	521,033	245,174
Illinois.....	245,533	11,561
Utah*.....	181,207	--
Colorado.....	154,338	--
Total.....	1,266,413	1,660,998
	=====	=====

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

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

As of December 31, 2002, approximately 86,659 acres (which includes 100% of the acreage held by Canyon Fuel) out of the Company's total of approximately 608,000 acres of coal land was leased from the federal government. These leases have terms expiring between 2002 and 2019, subject to readjustment or extension and to earlier termination for failure to meet diligent development requirements. The Company has entered into leases covering substantially all of its leased reserves which are not scheduled to expire prior to expiration of projected mining activities. Royalties are paid to lessors either as a fixed-price per-ton or as a percentage of the gross sales price of the mined coal. The Company pays percentage-based royalties under the majority of its significant leases. The terms of most of these leases extend until the exhaustion of mineable and merchantable coal. The remaining leases have initial terms ranging from one to 40 years from the date of their execution, with most containing options to renew. In some cases, a lease bonus, or prepaid royalty, is required, payable either at the time of execution of the lease or in annual installments. In most cases, the prepaid royalty amount is applied to reduce future production royalties.

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

All of the identified coal reserves held by the Company's subsidiaries have been subject to preliminary coal seam analysis to test sulfur content. Of these reserves, approximately 68% consist of compliance coal while an additional 21% could be sold as low-sulfur coal. The balance is classified as high-sulfur coal. Some of the Company's low-sulfur coal can be marketed as compliance coal when blended with other compliance coal. Accordingly, most of the Company's reserves are primarily suitable for the domestic steam coal markets. However, a substantial portion of the low-sulfur and compliance coal reserves at the Mingo Logan operations may also be used as a high-volatile, low-sulfur, metallurgical coal.

## Edgar Filing: ARCH COAL INC - Form 10-K

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

From time to time, lessors or sublessors of land leased by the Company's subsidiaries have sought to terminate such leases on the basis that such subsidiaries have failed to comply with the financial terms of the

9

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

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

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

The carrying cost of the Company's coal reserves at December 31, 2002 (which does not include the Company's 65% share of Canyon Fuel) was \$816.9 million, consisting of \$56.0 million of prepaid royalties and the \$760.9 million net book value of coal lands and mineral rights.

The Company's executive headquarters occupy approximately 78,000 square feet of leased space at One CityPlace Drive, in St. Louis, Missouri. See "Item 1. Business" for a further description of the Company's subsidiaries' mining complexes, mines, transportation facilities and other operations. The Company's subsidiaries currently own or lease the equipment utilized in their mining

## Edgar Filing: ARCH COAL INC - Form 10-K

operations.

### ITEM 3. LEGAL PROCEEDINGS

The information required by this Item is contained in the "Contingencies -- Legal Contingencies" section of "Management's Discussion and Analysis" contained in the Company's 2002 Annual Report to Stockholders and is incorporated herein by reference.

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

There were no matters submitted to a vote of security holders of the Company through the solicitation of proxies or otherwise during the fourth quarter of 2002.

10

## PART II

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

The information required by this Item is contained in the Company's 2002 Annual Report to Stockholders under the caption "Stockholder Information" and is incorporated herein by reference.

### ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is contained in the Company's 2002 Annual Report to Stockholders under the caption "Selected Financial Information", and is incorporated herein by reference.

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

The information required by this Item is contained in the Company's 2002 Annual Report to Stockholders under the caption "Management's Discussion and Analysis", and is incorporated herein by reference.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is contained in the Company's 2002 Annual Report to Stockholders under the caption "Management's Discussion and Analysis", and is incorporated herein by reference.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to Part IV, Item 14 of this Annual Report on Form 10-K for the information required by Item 8.

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

None.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the subcaptions "Nominees For a Three-Year Term That Will Expire in 2006", "Directors Whose Terms Will Expire in 2005", and "Directors Whose Terms Will Expire in 2004" which appear under the caption "Election of Directors" in the Company's Proxy Statement to be distributed to Company stockholders in connection with the Company's 2003 Annual Meeting (the "2003 Proxy Statement"). See also the list of the Company's executive officers and related information under "Executive Officers" in Part I, Item 1 herein.

## Edgar Filing: ARCH COAL INC - Form 10-K

### ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing in the "Summary Compensation Table", the sections entitled "Stock Option Grants", "Stock Option Exercises and Year-End Values", and the Pension Plan section (including the table therein), the Employment Agreements section, and the Compensation of Directors section in the 2003 Proxy Statement. No portion of the Personnel and Compensation Committee Report on Executive Compensation for 2002 or the Arch Coal Performance Graph is incorporated herein in reliance on Regulation S-K, Item 402(a)(8).

11

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the caption "Ownership of Arch Coal Common Stock" in the 2003 Proxy Statement.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the caption "Related Party Transactions" in the 2003 Proxy Statement.

### ITEM 14. CONTROLS AND PROCEDURES

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the caption "Disclosure Controls and Procedures" in the Company's 2002 Annual Report to Stockholders.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) (1) The following consolidated financial statements of Arch Coal, Inc. and subsidiaries included in the Company's 2002 Annual Report to Stockholders are incorporated by reference:
- Consolidated Statements of Operations -- Years Ended December 31, 2002, 2001 and 2000
  - Consolidated Balance Sheets -- December 31, 2002 and 2001
  - Consolidated Statements of Stockholders' Equity -- Years Ended December 31, 2002, 2001 and 2000
  - Consolidated Statements of Cash Flows -- Years Ended December 31, 2002, 2001 and 2000
  - Notes to Consolidated Financial Statements
- The following financial statements of Canyon Fuel Company, LLC are incorporated by reference to Exhibit 99 to this Annual Report on Form 10-K:
- Statements of Operations -- Years Ended December 31, 2002, 2001 and 2000
  - Balance Sheets -- December 31, 2002 and 2001
  - Statements of Members' Equity -- Years Ended December 31, 2002, 2001 and 2000
  - Statements of Cash Flows -- Years Ended December 31, 2002, 2001 and 2000
  - Notes to Financial Statements
- (a) (2) The following consolidated financial statement schedule of Arch Coal, Inc. and subsidiaries is included in Item 14 at the page indicated:
- II--Valuation and Qualifying Accounts at page 20.
- All other schedules for which provision is made in the

## Edgar Filing: ARCH COAL INC - Form 10-K

applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted

- (a) (3) Exhibits filed as part of this Report are as follows:
- 3.1 Restated Certificate of Incorporation of Arch Coal, Inc. (incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2000)
  - 3.2 Restated and Amended Bylaws of Arch Coal, Inc. (incorporated herein by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 2000)
- 12
- 4.1 Form of Rights Agreement, dated March 3, 2000 (incorporated herein by reference to Exhibit 1 to a current report on Form 8-A filed on March 9, 2000)
  - 4.2 Description of Indenture pursuant to Shelf Registration Statement (incorporated herein by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-58738) filed on April 11, 2001)
  - 4.3 Amended and Restated Credit Agreement, dated as of April 18, 2002, by and among the Company, the Lenders party thereto, PNC Bank, National Association, as administrative agent, JPMorgan Chase Bank, as syndication agent, and Citibank, N.A., Credit Lyonnais New York Branch, and U.S. Bank National Association, as documentation agents (incorporated herein by reference to Exhibit 4.7 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2002)
  - 4.4 Amended and Restated Credit Agreement, dated as of April 18, 2002, by and among the Arch Western Resources, LLC, the Lenders party thereto, PNC Bank, National Association, as administrative agent, JPMorgan Chase Bank, as syndication agent, and Citibank, N.A., Credit Lyonnais New York Branch, and U.S. Bank National Association, as documentation agents (incorporated herein by reference to Exhibit 4.8 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2002)
  - 4.5 Certificate of Designations Establishing the Designations, Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of the Company's 5% Perpetual Cumulative Convertible Preferred Stock (incorporated herein by reference to Exhibit 3 to current report on Form 8-A filed on March 5, 2003)
  - 10.1 Retention Agreement between Arch Coal, Inc. and Steven F. Leer, dated June 5, 2000 (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2000)
  - 10.2 Form of Retention Agreement between Arch Coal, Inc. and each of its Executive Officers (other than its Chief Executive Officer) (incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2000)
  - 10.3 Deed of Lease and Agreement between Dingess-Rum Coal Company and Amherst Coal Company (predecessor to Ark Land Company), dated June 1, 1962, as supplemented January 1, 1968, June 1, 1973, July 1, 1974 and November 12, 1987; Lease Exchange Agreement dated July 2, 1979 amended as of January 1, 1984, January 7, 1993 and February 24, 1993; Partial Release dated as of May 6, 1988; Assignments dated March 15, 1990 and October 5, 1990 (incorporated herein by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-4)



## Edgar Filing: ARCH COAL INC - Form 10-K

- (Registration No. 333-28149) filed on May 30, 1997)
- 10.4 Agreement of Lease by and between Shonk Land Company, Limited Partnership and Lawson Hamilton (predecessor to Ark Land Company), dated February 8, 1983, as amended October 7, 1987, March 9, 1989, April 1, 1992, October 31, 1992, December 5, 1992, February 16, 1993, August 4, 1994, October 1, 1995, July 31, 1996 and November 27, 1996 (incorporated herein by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
- 10.5 Lease between Little Coal Land Company and Ashland Land & Development Co., a wholly-owned subsidiary of Ashland Coal, Inc. which was merged into Allegheny Land Company, a second tier subsidiary of the Company (incorporated herein by reference to Exhibit 10.11 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)
- 13
- 10.6 Agreement of Lease dated January 1, 1988, between Courtney Company and Allegheny Land Company (legal successor by merger with Allegheny Land Co. No. 2, the assignee of Primeacre Land Corporation under October 5, 1992, assignments), a second-tier subsidiary of the Company (incorporated herein by reference to Exhibit 10.3 to the Annual Report on Form 10-K for the Year Ended December 31, 1995, filed by Ashland Coal, Inc., a subsidiary of the Company)
- 10.7 Lease between Dickinson Properties, Inc., the Southern Land Company, and F. B. Nutter, Jr. and F. B. Nutter, Sr., predecessors in interest to Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.14 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as Amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)
- 10.8 Lease Agreement between Fielden B. Nutter, Dorothy Nutter and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.22 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)
- 10.9 Lease and Modification Agreement between Horse Creek Coal Land Company, Ashland and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.24 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)
- 10.10 Lease Agreement between C. C. Lewis Heirs Limited Partnership and Allegheny Land Company, a second-tier subsidiary of the Company (incorporated herein by reference to Exhibit 10.25 of a Post-Effective Amendment No 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

## Edgar Filing: ARCH COAL INC - Form 10-K

- 10.11 Sublease between F. B. Nutter, Sr., et al., and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.27 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)
- 10.12 Coal Lease Agreement dated as of March 31, 1992, among Hobet Mining, Inc. (successor by merger with Dal-Tex Coal Corporation) as lessee and UAC and Phoenix Coal Corporation, as lessors, and related Company Guarantee (incorporated herein by reference to a Current Report on Form 8-K dated April 6, 1992 filed by Ashland Coal, Inc., a subsidiary of the Company)
- 10.13 Lease dated as of October 1, 1987, between Pocahontas Land Corporation and Mingo Logan Collieries Company whose name is now Mingo Logan Coal Company (incorporated herein by reference to Exhibit 10.3 to Amendment No. 1 to a Current Report on Form 8-K filed on February 14, 1990 by Ashland Coal, Inc., a subsidiary of the Company)
- 10.14 Consent, Assignment of Lease and Guaranty dated January 24, 1990, among Pocahontas Land Corporation, Mingo Logan Coal Company, Mountain Gem Land, Inc. and Ashland Coal, Inc. (incorporated herein by reference to Exhibit 10.4 to Amendment No. 1 to a Current Report on Form 8-K filed on February 14, 1990 by Ashland Coal, Inc., a subsidiary of the Company)

14

- 10.15 Federal Coal Lease dated as of June 24, 1993 between the United States Department of the Interior and Southern Utah Fuel Company (incorporated herein by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 10.16 Federal Coal Lease between the United States Department of the Interior and Utah Fuel Company (incorporated herein by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 10.17 Federal Coal Lease dated as of July 19, 1997 between the United States Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 10.18 Federal Coal Lease dated as of January 24, 1996 between the United States Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 10.19 Federal Coal Lease Readjustment dated as of November 1, 1967 between the United States Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 10.20 Federal Coal Lease effective as of May 1, 1995 between the United States Department of the Interior and Mountain Coal Company (incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 10.21 Federal Coal Lease dated as of January 1, 1999 between the Department of the Interior and Ark Land Company (incorporated herein by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K for the Year Ended

Edgar Filing: ARCH COAL INC - Form 10-K

- December 31, 1998)
- 10.22 Federal Coal Lease dated as of October 1, 1999 between the United States Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1999)
- 10.23 Form of Indemnity Agreement between Arch Coal, Inc. and Indemnatee (as defined therein) (incorporated herein by reference to Exhibit 10.15 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
- 10.24 Arch Coal, Inc. 1998 Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1997)
- 10.25 Arch Coal, Inc. (formerly Arch Mineral Corporation) Deferred Compensation Plan (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 (Registration No. 333-68131) filed on December 1, 1998)
- 10.26 Arch Coal, Inc. 1997 Stock Incentive Plan (as Amended and Restated on February 28, 2002) (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2002)
- 10.27 Arch Mineral Corporation 1996 ERISA Forfeiture Plan (incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
- 10.28 Arch Coal, Inc. Outside Directors' Deferred Compensation Plan effective January 1, 1999 (incorporated herein by reference to Exhibit 10.30 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

15

- 10.29 Second Amendment to the Arch Mineral Corporation Supplemental Retirement Plan effective January 1, 1998 (incorporated herein by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 13 Portions of the Company's Annual Report to Stockholders for the year ended December 31, 2002 (filed herewith)
- 21 Subsidiaries of the Company (filed herewith)
- 23.1 Consent of Ernst & Young LLP (filed herewith)
- 24 Power of Attorney (filed herewith)
- 99 Financial Statements of Canyon Fuel Company, LLC (filed herewith)
- 99.1 Certification of Steven F. Leer pursuant to 18 U.S.C. Section 1350 (filed herewith)
- 99.2 Certification of Robert J. Messey pursuant to 18 U.S.C. Section 1350 (filed herewith)

-----

\* Exhibits 10.24, 10.25, 10.26, 10.27 and 10.29 are executive compensation plans.

\*\* Upon written or oral request to the Company's Secretary, a copy of any of the above exhibits will be furnished at cost.

- (b) Reports on Form 8-K  
A report on Form 8-K announcing the promotion of John W.

Edgar Filing: ARCH COAL INC - Form 10-K

(d) Eaves to Executive Vice President and Chief Operating Officer was filed by the Company on December 18, 2002. Financial Statements of Canyon Fuel Company, LLC (incorporated by reference to Exhibit 99 of this Annual Report on Form 10-K for the Year Ended December 31, 2002).

16

SIGNATURES

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

Arch Coal, Inc.  
(Registrant)

By: /s/ STEVEN F. LEER

-----  
Steven F. Leer  
President and Chief Executive  
Officer

Date: March 13, 2003

SIGNATURES -----	CAPACITY -----
/s/ STEVEN F. LEER ----- Steven F. Leer	President and Chief Executive Officer and Director
/s/ ROBERT J. MESSEY ----- Robert J. Messey	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ JOHN W. LORSON ----- John W. Lorson	Controller
* ----- James R. Boyd	Director
* ----- Frank M. Burke	Director
* ----- Douglas H. Hunt	Director
* ----- James L. Parker	Director
* ----- A. Michael Perry	Director
* ----- Robert G. Potter	Director

Edgar Filing: ARCH COAL INC - Form 10-K

\*

Director

-----  
Theodore D. Sands

\*By: /s/ ROBERT G. JONES

-----  
Robert G. Jones  
As Attorney-in-fact

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

17

CERTIFICATIONS

I, Steven F. Leer, certify that:

1. I have reviewed this annual report on Form 10-K of Arch Coal, Inc;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report are our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

## Edgar Filing: ARCH COAL INC - Form 10-K

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ STEVEN F. LEER

-----  
Steven F. Leer  
President and Chief Executive Officer

Date: March 13, 2003

18

I, Robert J. Messey, certify that:

1. I have reviewed this annual report on Form 10-K of Arch Coal, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c. presented in this annual report are our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b.
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Edgar Filing: ARCH COAL INC - Form 10-K

By: /s/ ROBERT J. MESSEY

Robert J. Messey  
Senior Vice President and Chief  
Financial Officer

Date: March 13, 2003

19

SCHEDULE II

ARCH COAL, INC. AND SUBSIDIARIES  
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS  
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS (1)	BALAN END YE
Year Ended December 31, 2002				
Reserves Deducted from Asset Accounts				
Other Assets -- Other Notes and Accounts Receivable.....	544	3,409	59	3,
Current Assets -- Supplies Inventory.....	16,598	1,831	914	17,
Year Ended December 31, 2001				
Reserves Deducted from Asset Accounts				
Other Assets -- Other Notes and Accounts Receivable.....	59	544	59	
Current Assets -- Supplies Inventory.....	19,839	1,674	4,915	16,
Year Ended December 31, 2000				
Reserves Deducted from Asset Accounts				
Other Assets -- Other Notes and Accounts Receivable.....	541	--	482	
Current Assets -- Supplies Inventory.....	23,942	4,223	7,926	19,

(1) Reserves utilized, unless otherwise indicated.

20