

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

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Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Quarterly Period Ended March 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-13105

ARCH COAL, INC.  
(Exact name of registrant as specified in its charter)

Delaware 43-0921172  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

CityPlace One, Suite 300, St. Louis, Missouri 63141  
(Address of principal executive offices)(Zip Code)

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

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

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At May 5, 2000, there were 38,164,482 shares of registrant's common stock  
outstanding.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

ARCH COAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

	March 31, 2000	December 31, 1999
	----- (Unaudited)	-----
Assets		
Current assets		
Cash and cash equivalents	\$ 3,088	\$ 3,283
Trade accounts receivable	145,014	162,802
Other receivables	24,494	25,659
Inventories	63,573	62,382
Prepaid royalties	1,621	1,310
Deferred income taxes	21,600	21,600
Other	8,784	8,916
	-----	-----
Total current assets	268,174	285,952
	-----	-----
Property, plant and equipment, net	1,487,063	1,479,171
	-----	-----
Other assets		
Prepaid royalties	16,000	-
Coal supply agreements	142,192	151,978
Deferred income taxes	187,142	182,500
Investment in Canyon Fuel	211,191	199,760
Other	34,452	33,013
	-----	-----
Total other assets	590,977	567,251
	-----	-----
Total assets	\$2,346,214	\$2,332,374
	=====	=====
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 121,596	\$ 109,359
Accrued expenses	159,631	145,561
Current portion of debt	86,000	86,000
	-----	-----
Total current liabilities	367,227	340,920
Long-term debt	1,106,093	1,094,993
Accrued postretirement benefits other than pension	343,332	343,993
Accrued reclamation and mine closure	130,568	129,869
Accrued workers' compensation	98,865	105,190
Accrued pension cost	22,369	22,445
Other noncurrent liabilities	53,687	53,669
	-----	-----
Total liabilities	2,122,141	2,091,079
	-----	-----
Stockholders' equity		
Common stock	397	397
Paid-in capital	473,335	473,335
Accumulated deficit	(230,688)	(213,466)
Treasury stock, at cost	(18,971)	(18,971)
	-----	-----
Total stockholders' equity	224,073	241,295
	-----	-----
Total liabilities and stockholders' equity	\$2,346,214	\$2,332,374
	=====	=====

See notes to condensed consolidated financial statements.

ARCH COAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

	Three Months Ended March 31	
	----- 2000	1999 -----
Revenues		
Coal sales	\$344,399	\$405,952
Income from equity investment	3,631	4,029
Other revenues	9,771	11,145
	-----	-----
	357,801	421,126
	-----	-----
Costs and expenses		
Cost of coal sales	329,985	379,920
Selling, general and administrative expenses	9,756	12,498
Amortization of coal supply agreements	10,096	10,622
Other expenses	5,066	4,103
	-----	-----
	354,903	407,143
	-----	-----
Income from operations	2,898	13,983
Interest expense, net:		
Interest expense	(22,920)	(23,992)
Interest income	295	329
	-----	-----
	(22,625)	(23,663)
	-----	-----
Loss before income taxes and cumulative effect of accounting change	(19,727)	(9,680)
Benefit from income taxes	(4,700)	(7,300)
	-----	-----
Loss before cumulative effect of accounting change	(15,027)	(2,380)
Cumulative effect of accounting change, net of taxes	-	3,813
	-----	-----
Net income (loss)	\$(15,027)	\$ 1,433
	=====	=====
Basic and diluted earnings (loss) per common share:		
Loss before cumulative effect of accounting change	\$ (0.39)	\$ (0.06)
Cumulative effect of accounting change, net of taxes	-	0.10
	-----	-----
Basic and diluted earnings (loss) per common share	\$ (0.39)	\$ 0.04
	=====	=====
Weighted average shares outstanding	38,164	39,004
	=====	=====
Dividends declared per share	\$ 0.0575	\$ 0.1150
	=====	=====

See notes to condensed consolidated financial statements.

ARCH COAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	Three Months Ended March 31	
	2000	1999
Operating activities		
Net income (loss)	\$ (15,027)	\$ 1,433
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	51,769	62,342
Prepaid royalties expensed	1,590	4,333
Net gain on disposition of assets	(2,343)	(731)
Income from equity investment	(3,631)	(4,029)
Distributions from (contributions to) equity investment	(7,800)	50,742
Cumulative effect of accounting change	-	(3,813)
Changes in:		
Receivables	18,953	(54,112)
Inventories	(1,191)	(9,782)
Accounts payable and accrued expenses	26,307	38,929
Income taxes	(4,642)	(7,548)
Accrued postretirement benefits other than pension	(661)	1,499
Accrued reclamation and mine closure	699	1,714
Accrued workers' compensation benefits	(6,325)	(630)
Other	(1,711)	6,449
Cash provided by operating activities	55,987	86,796
Investing activities		
Additions to property, plant and equipment	(50,129)	(22,245)
Proceeds from dispositions of property, plant and equipment	2,942	13,272
Proceeds from coal supply agreements	-	14,874
Additions to prepaid royalties	(17,901)	(19,348)
Cash used in investing activities	(65,088)	(13,447)
Financing activities		
Net proceeds from (payments on) revolver and lines of credit	11,101	(65,159)
Payments on term loans	-	(15,745)
Dividends paid	(2,195)	(4,447)
Purchases of treasury stock	-	(7,886)
Cash provided by (used in) financing activities	8,906	(93,237)
Decrease in cash and cash equivalents	(195)	(19,888)
Cash and cash equivalents, beginning of period	3,283	27,414
Cash and cash equivalents, end of period	\$ 3,088	\$ 7,526

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2000  
(UNAUDITED)

Note A - General

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations, but are subject to any year-end adjustments which may be necessary. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the period ended March 31, 2000 are not necessarily indicative of results to be expected for the year ending December 31, 2000. Arch Coal, Inc. (the "Company") operates one reportable segment: the production of steam and metallurgical coal from surface and deep mines throughout the United States, for sale to utility, industrial and export markets. The Company's mines are located in the central Appalachian and western regions of the United States. All subsidiaries (except as noted below) are wholly owned. Significant intercompany transactions and accounts have been eliminated in consolidation.

Arch Western Resources, LLC ("Arch Western"), a subsidiary of the Company, is 99% owned by the Company and 1% owned by Atlantic Richfield Company ("ARCO"). The principal operating units of Arch Western are Thunder Basin Coal Company, L.L.C., owned 100% by Arch Western, which operates two coal mines in the Southern Powder River Basin in Wyoming; Mountain Coal Company, L.L.C., owned 100% by Arch Western, which operates one coal mine in Colorado; Canyon Fuel Company, LLC ("Canyon Fuel"), 65% owned by Arch Western and 35% by ITOCHU Coal International Inc., a subsidiary of ITOCHU Corporation, which operates three coal mines in Utah; and Arch of Wyoming, LLC, owned 100% by Arch Western, which operates two coal mines in the Hanna Basin of Wyoming.

The Company's 65% ownership of Canyon Fuel is accounted for on the equity method in the Condensed Consolidated Financial Statements as a result of certain super-majority voting rights in the joint venture agreement. Income from Canyon Fuel is reflected in the Condensed Consolidated Statements of Operations as income from equity investment (see additional discussion in "Investment in Canyon Fuel" in Note C).

Note B - Change in Accounting Method

Through December 31, 1998, plant and equipment have principally been depreciated on the straight-line method over the estimated useful lives of the assets, which range from three to twenty years. Effective January 1, 1999, depreciation on the Company's preparation plants and loadouts was computed using the units-of-production method, which is based upon units produced, subject to a minimum level of depreciation. These assets are usage-based assets and their economic lives are typically based and measured on coal throughput. The Company believes the units-of-production method is preferable to the method previously used because the new method recognizes that depreciation of this equipment is related substantially to physical wear due to usage and also to the passage of time. This method, therefore, more appropriately matches production costs over the lives of the preparation plants and loadouts with coal sales revenue and results in a more accurate allocation of the cost of the physical assets to the periods in which the assets are consumed. The cumulative effect of applying the new method for years prior to 1999 is an increase to income of \$3.8 million net-of-tax (\$6.3 million pre-tax) reported as a cumulative effect of accounting change in the Condensed Consolidated Statement of Operations for the three months ended March 31, 1999.

Note C - Investment in Canyon Fuel

The following table presents unaudited summarized financial information for Canyon Fuel which, as part of the Company's June 1, 1998 acquisition of ARCO's coal operations (the "Arch Western transaction"), is accounted for on the equity method:

Condensed Income Statement Information	Three Months Ended March 31,	
	2000	1999
	(in thousands)	
Revenues	\$ 65,292	\$ 58,381
Total costs and expenses	61,227	53,242
Net income	\$ 4,065	\$ 5,139
65% of Canyon Fuel net income	\$ 2,642	\$ 3,340
Effect of purchase adjustments	989	689
Arch Coal's income from its equity investment in Canyon Fuel	\$ 3,631	\$ 4,029

The Company's income from its equity investment in Canyon Fuel represents 65% of Canyon Fuel's net income after adjusting for the effect of its investment in Canyon Fuel. The Company's investment in Canyon Fuel reflects purchase adjustments primarily related to the reduction in amounts assigned to sales contracts, mineral reserves and other property, plant and equipment.

#### Note D - Inventories

Inventories are comprised of the following:

	March 31, 2000	December 31, 1999
	(in thousands)	
Coal	\$ 30,279	\$ 28,183
Repair parts and supplies	33,294	34,199
	\$ 63,573	\$ 62,382

#### Note E - Debt

Debt consists of the following:

	March 31, 2000	December 31, 1999
	(in thousands)	
Indebtedness to banks under lines of credit	\$ 1,100	\$ -
Indebtedness to banks under revolving credit agreement, expiring May 31, 2003	375,000	365,000
Variable rate term loan payable quarterly from July 1, 2001 through May 31, 2003	135,000	135,000
Variable rate term loan payable May 31, 2003	675,000	675,000

Other	5,993	5,993
	-----	-----
	1,192,093	1,180,993
Less current portion	86,000	86,000
	-----	-----
Long-term debt	\$ 1,106,093	\$ 1,094,993
	=====	=====

In connection with the Arch Western transaction, the Company entered into two five-year credit facilities: a \$675 million non-amortizing term loan in the name of Arch Western, the entity owning the right to the coal reserves and operating assets acquired in the Arch Western transaction, and a \$900 million credit facility in the name of the Company, including a \$300 million fully amortizing term loan and a \$600 million revolver. Borrowings under these credit facilities were used to finance the acquisition of ARCO's Colorado and Utah coal operations, to pay related fees and expenses, to refinance existing corporate debt and for general corporate purposes. Borrowings under the Arch Western credit facility were used to fund a portion of a \$700 million cash distribution by Arch Western to ARCO, which distribution occurred simultaneously with ARCO's contribution of its Wyoming coal operations and certain other assets to Arch Western. The \$675 million term loan is secured by Arch Western's membership interests in its subsidiaries. The Arch Western credit facility is not guaranteed by the Company. The rate of interest on the borrowings under the agreements is, at the Company's option, the PNC Bank base rate or a rate based on LIBOR. At March 31, 2000, the Company's debt is approximately 84% of capital employed.

Terms of the Company's credit facilities and leases contain financial and other restrictive covenants that limit the ability of the Company to, among other things, pay dividends, effect acquisitions or dispositions and borrow additional funds and require the Company to, among other things, maintain various financial ratios and comply with various other financial covenants. 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. At December 31, 1999, as a result of the effect of the write-down of impaired assets and other restructuring costs incurred during 1999, the Company did not comply with certain of these restrictive covenant requirements, for which the Company received an amendment on January 21, 2000. These amendments contain, among other things, provisions for the payment of fees of .25% and an increase in the interest rate of .375% associated with the Company's term loan and the \$600 million revolver. In addition, the amendments require the pledging of assets to collateralize the term loan and the \$600 million revolver by May 17, 2000. The parties are continuing to negotiate the terms of the pledging of these assets. The assets to be pledged are expected to include equity interests in wholly owned entities, certain real property interests, accounts receivable and inventory of the Company and such wholly owned entities.

The Company enters into interest-rate swap agreements to modify the interest-rate characteristics of the Company's outstanding debt. At March 31, 2000, the Company had interest-rate swap agreements having a total notional value of \$765 million. These swap agreements were used to convert variable-rate debt to fixed-rate debt. Under these swap agreements, the Company pays a weighted-average fixed-rate of 5.70% (before the credit spread over LIBOR) and is receiving a weighted-average variable-rate based upon 30-day and 90-day LIBOR. At March 31, 2000, the remaining term of the swap agreements ranged from 29 to 53 months.

#### Note F - Stockholder Rights Plan

On March 3, 2000, the Board of Directors adopted a stockholder rights plan under which preferred share purchase rights were distributed as a dividend to the Company's stockholders of record on March 20, 2000. The rights are exercisable only if a person or group acquires 20% or more of the Company's Common Stock (an "Acquiring Person") or announces a tender or exchange offer the consummation of which would result in ownership by a person or group of 20% or more of the Company's Common Stock. Each right entitles the holder to buy one one-hundredth of a share of a series of junior participating preferred stock at an exercise price of \$42, or in certain circumstances allows the holder (except for the Acquiring Person) to purchase the Company's Common Stock or



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

Note G - Contingencies

The Company is a party to numerous claims and lawsuits with respect to various matters. The Company provides for costs related to contingencies, including environmental matters, when a loss is probable and the amount is reasonably determinable. The Company estimates that its probable aggregate loss as a result of such claims as of March 31, 2000 is \$4.5 million (included in other noncurrent liabilities). The Company estimates that its reasonably possible aggregate losses from all material litigation that is currently pending could be as much as \$.5 million (before taxes) in excess of the probable loss previously recognized. After conferring with counsel, it is the opinion of management that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

Note H - Changes in Estimates and Other Non-Recurring Revenues and Expenses

The Company's operating results for the three months ended March 31, 1999 reflect a charge of \$6.5 million related to the planned temporary shut down of its Dal-Tex mine in Logan County, West Virginia on July 23, 1999. The charge consisted principally of severance costs, obligations for non-cancelable lease payments and a change in the reclamation liability due to the temporary shut down. The shut down was 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 (for a discussion of the legal action, see the "Contingencies - Legal Contingencies - Dal-Tex Litigation" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in this report).

During 1999, the Company recorded pre-tax charges totaling \$23.1 million (including the \$6.5 million charge discussed above) related to (i) the restructuring of its administrative workforce; (ii) the closure of its Dal-Tex mine in West Virginia due to permitting problems; and (iii) the closure of several small mines in Kentucky (Coal-Mac) and the one remaining underground mine in Illinois (Arch of Illinois) due to depressed coal prices, caused in part by increased competition from western coal mines. The following are the components of severance and other exit costs included in the restructuring charge along with related activity:

(in thousands)	1999 Charge	Utilized in 1999	Utilized During First Quarter 2000	Balance at March 31, 2000
Employee costs	\$ 7,354	\$ 704	\$ 3,370	\$2,919
Obligations for non-cancelable lease payments	9,858	484	8,366	1,009
Reclamation liabilities	3,667	1,200	310	2,157
Depreciation acceleration	2,172	2,172	-	-
	\$ 23,051	\$4,560	\$12,406	\$6,085

Except for the charge related to depreciation acceleration, all of the 1999 restructuring charge will require the Company to use cash. Also, the Company expects to utilize the balance of the amounts reserved for employee cost during the remainder of 2000, while obligations for non-cancelable lease payments and reclamation liabilities will be utilized in future periods as lease payments are made and reclamation procedures are performed.

Note I - Sale and Leaseback

On January 29, 1998, the Company sold mining equipment for approximately \$74.2 million and leased back the equipment under an operating lease with a term of three years. This included the sale and leaseback of equipment purchased under an existing operating lease that expired on the same day. The proceeds of the sale were used to purchase the equipment under the expired lease for \$28.3 million and to pay down debt. At the end of the lease term, the Company has the option to renew the lease for two additional one-year periods or purchase the equipment. Alternatively, the equipment may be sold to a third party. In the event of such a sale, the Company will be required to make a payment to the lessor in the event, and to the extent, that the sale proceeds are below a certain threshold. The gain on the sale and leaseback of \$10.7 million was deferred and is being amortized over the base of the lease as a reduction of lease expense. The Company has elected to renew the lease for an additional one year period as described above. Also, effective February 4, 2000, the Company purchased for \$10.3 million several pieces of equipment under lease that were included in this transaction and transferred them to the Company's Wyoming operations. A pro-rata portion of the deferred gain, \$.3 million, was offset against the cost of the assets. After the effect of this and previous purchases, at the end of the renewed lease term, the remaining assets can be purchased for \$28.3 million or sold to a third party with the Company required to make a payment to the lessor in the event, and to the extent that, proceeds are below \$22.6 million. Future non-cancelable rental payments remaining under this lease are expected to be approximately \$3.5 million for the remainder of 2000 and \$3.9 million in 2001.

Note J - Earnings (Loss) per Share

The following table sets forth the computation of basic and diluted earnings (loss) per common share from continuing operations.

	Three Months Ended March 31,	
	----- 2000 -----	1999 -----
	(in thousands, except per share data)	
Numerator:		
Loss before extraordinary item and cumulative effect of accounting change	\$ (15,027)	\$ (2,380)
Cumulative effect of accounting change, net of taxes	-	3,813
	-----	-----
Net income (loss)	\$ (15,027)	\$ 1,433
	=====	=====
Denominator:		
Weighted average shares - denominator for basic	38,164	39,004
Dilutive effect of employee stock options	-	-
	-----	-----
Adjusted weighted average shares - denominator for diluted	38,164	39,004
	=====	=====
Basic and diluted loss per common share before cumulative effect of accounting change	\$ (.39)	\$ (.06)
	=====	=====
Basic and diluted earnings (loss) per common share	\$ (.39)	\$ .04
	=====	=====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements in the "Outlook" and "Liquidity and Capital Resources" sections below. Words such as "anticipates," "believes," "estimates," "expects,"

"is likely," "predicts," "may" and variations of such words and similar expressions are intended to identify such forward-looking statements. Although the Company believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such statements will be achieved. Important factors which could cause actual results to differ materially from those contained in such statements are discussed in the "Contingencies" and "Certain Trends and Uncertainties" sections below.

## RESULTS OF OPERATIONS

Quarter Ended March 31, 2000, Compared  
to Quarter Ended March 31, 1999

The Company incurred a net loss of \$15.0 million for the quarter ended March 31, 2000 compared to net income of \$1.4 million for the quarter ended March 31, 1999. Results for the quarter were adversely impacted by the idling of the West Elk mine in Gunnison County, Colorado. The mine was idled on January 28, 2000, following the detection of combustion gasses in a portion of the mine. During the current quarter, the mine contributed \$8.9 million and a loss of \$11.9 million to coal sales and operating income, respectively, compared to \$27.2 million and \$1.5 million to coal sales and operating income, respectively, during the quarter ended March 31, 1999.

Total revenues for the quarter ended March 31, 2000 decreased 15% from the quarter ended March 31, 1999 as a result of several factors. Those factors include reduced sales at the Company's West Elk mine as a result of the January 28 idling described above. In addition, the Company closed its Dal-Tex, Wylo and Arch of Illinois operations and two surface mines in Kentucky during 1999.

The Company idled the Dal-Tex operation on July 23, 1999 due to a delay in obtaining new mining permits which resulted from legal action in the U.S. District Court for the Southern District of West Virginia (see additional discussion in the "Contingencies - Legal Contingencies - Dal-Tex Litigation" section of this report). The Wylo operation ceased production in December 1999 due to the depletion of its recoverable reserves. The Arch of Illinois operation was closed due to a lack of demand for the mine's high-sulfur coal. Demand for high-sulfur coal has declined rapidly as a result of the stringent Clean Air Act requirements that are driving a shift to low-sulfur coal. The two small surface mines in Kentucky are affiliated with the Coal-Mac operation and were closed as a result of its cost structure not being competitive in the current market. These factors were partially offset by increased production and sales at the Company's Black Thunder mine in Wyoming. On a per-ton-sold basis, the Company's average selling price of \$12.40 decreased \$2.24 from the same period in the prior year primarily as a result of the expected shift of coal sales from the Company's eastern operations to its western operations. Western coal has a significantly lower average sales price than that provided from the Company's eastern coal operations, due in part to the lower Btu content of Powder River Basin coal.

Excluding the loss from operations resulting from the temporary idling of the West Elk mine described above, income from operations increased \$.8 million for the quarter ended March 31, 2000 when compared to the same period in the prior year. The increase is attributable to improved performance at several of the Company's mines which resulted from the Company's continued focus on reducing costs and improving productivity, and reduced costs in the current quarter resulting from the closure of the Dal-Tex operation in July 1999. This was partially offset by continuing difficult market conditions that prevailed in U.S. coal markets during the quarter along with increased fuel costs experienced in the current quarter. Income from operations also declined at the Company's Mingo Logan longwall operation (Mountaineer Mine) where, despite another strong first quarter and the contribution of \$13.1 million to the Company's income from operations, results were below the \$16.3 million of income from operations from the first quarter of 1999. The decrease was primarily caused by continuing depressed coal prices, generally less favorable mining conditions and increased mine development expenses associated with the start-up of the Alma seam operation. Other factors that affected quarter to quarter comparisons of income from operations included production shortfalls, deterioration of mining conditions and resulting lower income contributions from the Company's Dal-Tex mine complex during the first quarter of 1999 which culminated in the idling of that operation on July 23, 1999. As a result of the idling, the Company recorded a charge of \$6.5 million during the first quarter of 1999, comprised principally of severance costs, obligations for non-cancelable lease

payments and a change in the reclamation liability due to the idling (see additional discussion below).

Selling, general and administrative expenses decreased \$2.7 million from the first quarter of 1999. The decrease is attributable to cost savings resulting from the restructuring of the Company's administrative workforce that occurred during the fourth quarter of 1999 and also due to reduced legal and media expenses incurred during the first quarter of 2000 when compared to the first quarter of 1999.

Interest expense decreased \$1.1 million due to lower average debt levels outstanding during the first quarter of 2000 when compared to the first quarter of 1999 partially offset by higher interest rates during the current quarter.

The Company's effective tax rate is sensitive to changes in annual profitability and percentage depletion. During the fourth quarter of 1999, the Company determined that as it relates to future income taxes, the Company does not anticipate recognizing all of its alternative minimum tax credit carry-forwards in the future and expects to recognize part of the benefit of its deferred tax asset at the alternative minimum tax rate of approximately 24%.

EBITDA (income (loss) from operations before the effect of changes in accounting principles and extraordinary items; merger-related costs, unusual items, asset impairment and restructuring charges; net interest expense; income taxes; depreciation, depletion and amortization of Arch Coal, its subsidiaries and its ownership percentage in its equity investments) was \$63.6 million for the current quarter compared to \$86.0 million for the first quarter of 1999. The decrease in EBITDA was primarily attributable to the temporary idling of the West Elk mine and Mingo Logan's performance, as described above. EBITDA is a widely accepted financial indicator of a company's ability to incur and service debt, but EBITDA should not be considered in isolation or as an alternative to net income, operating income or cash flows from operations or as a measure of a company's profitability, liquidity or performance under generally accepted accounting principles. The Company's method of computing EBITDA also may not be the same method used to compute similar measures reported by other companies, or EBITDA may be computed differently by the Company in different contexts (e.g., public reporting versus computations under financing agreements).

## OUTLOOK

**West Elk Mine.** The Company temporarily idled its West Elk underground mine in Gunnison County, Colorado, on January 28, 2000 following the detection of higher-than-normal levels of carbon monoxide in a portion of the mine. Higher-than-normal levels of carbon monoxide indicate that combustion is present somewhere within the affected portion of the mine. The Company has isolated the combustion, constructed a number of water-tight seals around the combustion and flooded that area with water. Since then, air readings have returned to normal levels.

With the approval of the Mine Safety and Health Administration ("MSHA"), the Company has re-entered the mine. None of the major equipment, including the longwall, appears to have been damaged during the extended idling of the mine, and the Company has completed the longwall move that was interrupted by the idling. Currently, the Company is completing its recovery efforts at the mine and is also implementing ventilation changes required by MSHA. As previously announced, the Company expects to incur after-tax losses of \$4 million to \$6 million per month at the operation while it is idled. Based on the progress made to date, the Company expects that the mine may resume production by the end of the second quarter. The Company has business interruption insurance and believes that a substantial portion of the losses related to the West Elk mine will be covered by an insurance settlement later in the year. There can be no assurance of recovery however, until the claim is resolved with the insurance carrier.

**West Virginia Operations.** On October 20, 1999, the U.S. District Court for the Southern District of West Virginia permanently enjoined the West Virginia Division of Environmental Protection (the "West Virginia DEP") from issuing any permits that authorize the construction of valley fills as part of coal mining operations. The West Virginia DEP complied with the injunction by issuing an order banning the issuance of nearly all new permits for valley fills and prohibiting the further advancement of nearly all existing fills. On October 29, 1999, the district court granted a stay of its injunction, pending the outcome of an appeal of the court's decision filed by the West

Virginia DEP with the U.S. Court of Appeals for the Fourth Circuit. The West Virginia DEP rescinded its order in response to the stay granted by the court. It is impossible to predict the outcome of the West Virginia DEP's appeal to the Fourth Circuit. If, however, the district court's ruling is not overturned or if a legislative or other solution is not achieved, then the ability of the Company and other coal producers to mine coal in West Virginia would be seriously compromised.

The injunction discussed above was entered as part of the litigation that caused the delay in obtaining mining permits for the Company's Dal-Tex operation (see additional discussion of this litigation in the "Contingencies - Legal Contingencies - Dal-Tex Litigation" section of this report). As a result of such delay, the Company idled its Dal-Tex mining operation on July 23, 1999. The Company remains hopeful that it can reopen the Dal-Tex operation after all necessary permits are obtained, which is not expected to occur until mid-2001 at the earliest. Reopening the mine is, however, contingent upon the district court's injunction being overturned or a legislative or other solution being achieved, as well as then-existing market conditions.

Coal Markets. The Company continues to be adversely affected by the weak conditions that have prevailed in U.S. coal markets during the past 16 months, especially in the east. Signs that market conditions for coal may improve are, however, beginning to appear. These signs include the following: electric output is up approximately 4% so far this year; nuclear plant outages for refuelings have increased approximately 25% over last year; hydro conditions are weaker than normal due to dry conditions; petroleum and gas prices are higher; and the National Weather Service has predicted a warmer-than-normal summer. Because most of the Company's production is already committed and priced for the current year, the Company expects its performance for the remainder of the year to reflect the current market weakness. However, the signs indicating a possible improved market may translate into improved pricing during 2001.

Low-Sulfur Coal Producer. Despite the current weak market and other ongoing challenges facing the coal industry, the Company continues to believe that it is uniquely positioned to capitalize on the continuing growth in demand for electricity. With Phase II of the Clean Air Act in effect, the Company believes that in the long term, compliance coal will command a premium in the marketplace. Compliance coal is coal that meets the requirements of Phase II of the Clean Air Act without the use of expensive scrubbing technology. All of Arch's western coal production and approximately half of its eastern production is compliance quality.

The Company continues to develop its assets at its western operations, including the Black Thunder mine near Gillette, Wyoming. The Company has completed the construction of a fourth dragline at the operation and has begun production on the Thundercloud federal lease tract, a large contiguous block of reserves containing 370 million tons of recoverable coal. These actions should allow the mine to increase production 20% this year to approximately 60 million tons. The Company hopes to maintain that level of production for the foreseeable future in light of the increased demand for Powder River Basin coal. Demand for Powder River Basin coal has more than doubled in the past decade and continues to grow at a far higher rate than that of the coal market overall.

Chief Financial Objectives. The Company continues to focus on realizing the substantial potential of its assets and maximizing shareholder value by making decisions based upon its five chief financial objectives: (i) aggressively paying down debt, (ii) further strengthening cash generation, (iii) improving earnings, (iv) increasing productivity and (v) reducing costs throughout the Company.

The Company's total debt increased \$11 million during the current quarter due in large part to the second of five annual payments of \$31.6 million for the Thundercloud federal reserve lease, which was acquired in 1998, as well as reduced cash generation and increased expenditures related to the idling of the West Elk mine. Given the timing of the payments for the Thundercloud lease and the temporary idling of the West Elk mine, the Company expects to make most of its progress toward reducing debt in the second half of 2000.

As part of its corporate-wide effort to reduce costs, the Company streamlined the structure of its organization during the fourth quarter of 1999 and as a result eliminated approximately 81 administrative jobs, 58 of which were corporate and the remainder of which were subsidiary positions. The elimination of jobs occurred through layoffs and attrition. The Company believes that the corporate-wide restructuring will likely reduce future

operating costs by approximately \$11 million a year compared to 1999.

Ashland Distribution. On March 29, 2000, Ashland Inc. ("Ashland"), which owned approximately 58% of the outstanding common stock of the Company, distributed 17.4 million of its 22.1 million shares of Arch Coal, Inc. common stock to its shareholders as a taxable dividend. Ashland has announced that it plans to dispose of its remaining 4.7 million shares of Company common stock in a tax-efficient manner during the year following the distribution, subject to existing market conditions. Ashland's distribution did not impact the Company's operations.

#### LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of cash provided by or used in each of the indicated types of activities during the three months ended March 31, 2000 and 1999:

	2000	1999
	-----	-----
	(in thousands)	
Cash provided by (used in):		
Operating activities	\$ 55,987	\$ 86,796
Investing activities	(65,088)	(13,447)
Financing activities	8,906	(93,237)

Cash provided by operating activities decreased in the first quarter of 2000 compared to the same period in 1999 due to: a decrease in cash provided from equity investments and reduced cash from coal sales and increased costs resulting from the West Elk mine combustion. These were partially offset by increased receivable collections in the current quarter when compared to the prior year's quarter. The decrease in cash provided from equity investments results primarily from the amendment in the prior year's quarter of a coal supply agreement with the Intermountain Power Agency, which was a significant portion of the \$50.7 million cash distribution from Canyon Fuel. During the current quarter, the Company contributed \$7.8 million to Canyon Fuel to fund cash requirements.

Cash used in investing activities increased in the first quarter of 2000 compared to the first quarter of 1999 primarily as a result of the Company making the second of five annual payments on the Thundercloud federal lease which is part of the Black Thunder mine in Wyoming. The first payment was due at the time of the acquisition of the lease in 1998. The remaining four payments are due each January of the years 2000 through 2003. Quarter over quarter comparisons are also affected by the amendment of another coal supply agreement during 1999. The amendment changed the contract terms from above-market to market-based pricing. As a result of the amendment, the Company received proceeds of \$14.1 million (net of royalty and tax obligations) during the first quarter of 1999 from the customer.

Cash provided by financing activities reflects net borrowings of \$11.1 million in the current quarter compared to net payments of \$80.9 million in the previous year's quarter. In addition, requirements for dividend payments have decreased \$2.3 million in the current quarter as compared to the prior year's quarter, resulting from a decrease in shares outstanding, and a reduction in the quarterly dividend from 11.5 cents per share to 5.75 cents per share. The dividend reduction is attributable to the Company's goal to aggressively pay down debt.

The Company periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At March 31, 2000, there were \$25 million of such agreements in effect, of which \$1.1 million were outstanding.

The Company is exposed to market risk associated with interest rates. At March 31, 2000, debt included \$1.186 billion of floating-rate debt, which is, at the Company's option, the PNC Bank base rate or a rate based on LIBOR and current market rates for bank lines of credit. To manage these exposures, the Company enters into interest-rate swap agreements to modify the interest-rate characteristics of outstanding Company debt. At March 31, 2000, the Company had interest-rate swap agreements having a total notional value of \$765 million. These swap agreements are used to convert variable-rate debt to fixed-rate debt. Under these swap agreements, the Company pays a weighted average fixed rate of 5.70% (before the credit spread over LIBOR) and receives a weighted average variable rate based upon 30-day and 90-day LIBOR. The Company accrues amounts to be paid or received under interest-rate swap agreements over the lives of the agreements. Such amounts are recognized as adjustments to interest expense over the lives of agreements, thereby adjusting the effective interest rate on the Company's debt. The fair value of the swap agreements are not recognized in the financial statements. Gains and losses on terminations of interest-rate swap agreements are deferred on the balance sheet (in other long-term liabilities) and amortized as an adjustment to interest expense over the remaining term of the terminated swap agreement. The remaining terms of the swap agreements at March 31, 2000 ranged from 29 to 53 months. All instruments are entered into for other than trading purposes.

The discussion below presents the sensitivity of the market value of the Company's financial instruments to selected changes in market rates and prices. The range of changes reflects the Company's view of changes that are reasonably possible over a one-year period. Market values are the present value of projected future cash flows based on the market rates and prices chosen. The major accounting policies for these instruments are described in Note 1 to the consolidated financial statements of the Company as of and for the year ended December 31, 1999 as filed on Form 10-K with the Securities and Exchange Commission.

Changes in interest rates have different impacts on the fixed-rate and variable-rate portions of the Company's debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows but does not impact the net financial instrument position.

The sensitivity analysis related to the fixed portion of the Company's debt portfolio assumes an instantaneous 100-basis-point move in interest rates from their levels at March 31, 2000 with all other variables held constant. A 100-basis-point decrease in market interest rates would result in an increase in the net financial instrument position of the fixed portion of debt of \$18.3 million at March 31, 2000. Based on the variable-rate debt included in the Company's debt portfolio as of March 31, 2000, after considering the effect of the swap agreements, a 100-basis-point increase in interest rates would result in an annualized additional \$4.2 million of interest expense incurred based on quarter-end debt levels.

## CONTINGENCIES

### Reclamation

The federal Surface Mining Control and Reclamation Act of 1977 ("SMCRA") and similar state statutes require that mine property be restored in accordance with specified standards and an approved reclamation plan. The Company accrues for the costs of final mine closure reclamation over the estimated useful mining life of the property. These costs relate to reclaiming the pit and support acreage at surface mines and sealing portals at deep mines. Other costs of final mine closure common to surface and underground mining are related to reclaiming refuse and slurry ponds, eliminating sedimentation and drainage control structures and dismantling or demolishing equipment or buildings used in mining operations. The Company also accrues for significant reclamation that is

completed during the mining process prior to final mine closure. The establishment of the final mine closure reclamation liability and the other ongoing reclamation liability are based upon permit requirements and require various estimates and assumptions, principally associated with costs and productivities.

The Company reviews its entire environmental liability periodically and makes necessary adjustments, including permit changes and revisions to costs and productivities to reflect current experience. These recosting adjustments are recorded to cost of coal sales. No such adjustments were recorded in the three months ended March 31, 2000 or in the three months ended March 31, 1999. The Company's management believes it is making adequate provisions for all expected reclamation and other associated costs.

#### Legal Contingencies

The Company is a party to numerous claims and lawsuits with respect to various matters, including those discussed below. The Company provides for costs related to contingencies, including environmental matters, when a loss is probable and the amount is reasonably determinable. The Company estimates that its probable aggregate loss as a result of such claims as of March 31, 2000 is \$4.5 million (included in other noncurrent liabilities). The Company estimates that its reasonably possible aggregate losses from all material litigation that is currently pending could be as much as \$5 million (before taxes) in excess of the probable loss previously recognized. After conferring with counsel, it is the opinion of management that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company.

**Dal-Tex Litigation.** On July 16, 1998, ten individuals and The West Virginia Highlands Conservancy filed suit in U.S. District Court for the Southern District of West Virginia against the director of the West Virginia DEP and officials of the Corps alleging violations of SMCRA and the Clean Water Act. The plaintiffs alleged that the West Virginia DEP and the Corps have violated their duties under SMCRA and the Clean Water Act by authorizing the construction of "valley fills" under certain surface coal mining permits. These fills are the large, engineered works into which the excess earth and rock extracted during surface mining are placed. The plaintiffs also alleged that the West Virginia DEP has failed to require (i) that lands mined are restored to "approximate original contour" and (ii) that approved post-mining land uses are enforced following reclamation.

Four indirect, wholly owned subsidiaries of the Company hold nine permits that were identified in the complaint as violating the legal standards that the plaintiffs requested the district court interpret. In addition, a pending permit application for the Company's Dal-Tex operation (known as the "Spruce Fork Permit") was specifically identified as a permit the issuance of which should be enjoined. Three subsidiaries of the Company intervened in the lawsuit in support of the Corps and the West Virginia DEP on August 6, 1998.

A partial settlement between the plaintiffs and the Corps was reached on December 23, 1998. Pursuant to that settlement, all claims were dismissed against the Corps for its alleged failure to execute its duties under the Clean Water Act. The settlement agreement reached between the Corps and the plaintiffs requires the preparation of a programmatic environmental impact statement (an "EIS") under the National Environmental Policy Act of 1969 ("NEPA") to evaluate the environmental effects of mountaintop mining. This EIS is scheduled to be completed by January 2001. Until it is completed, any proposed fill greater than 250 acres in size must secure an individual Clean Water Act Section 404 "dredge and fill" permit, instead of a general permit like the one the Corps indicated it would issue for the Dal-Tex operation under its nationwide authorization program. The Spruce Fork Permit was not included in the settlement, and the claims against the Corps with respect to that permit were not dismissed.

On March 3, 1999, the district court issued a preliminary injunction which prohibited the Corps from issuing a general Clean Water Act Section 404 dredge and fill permit for the Dal-Tex operation and enjoined the Company from future operations on the permit until a full trial on the merits could be held. As a result of the entry of the preliminary injunction, the Company idled the Dal-Tex mine on July 23, 1999.

On July 26, 1999, the plaintiffs and the West Virginia DEP tendered to the district court a proposed consent decree which would resolve most of the remaining issues in the case. Pursuant to the proposed consent decree, the West



Virginia DEP agreed in principle to amend its regulations and procedures to correct alleged deficiencies. In addition, the parties agreed in principle on a new definition of approximate original contour as it applies to mountaintop mining, as well as to certain regulatory changes involving post-mining land uses. After inviting public comment of the proposed consent decree, the court entered the consent decree in a final order on February 17, 2000.

The Company's Hobet Mining subsidiary agreed as part of the consent decree to revise portions of its Spruce Fork Permit application to conform to the new definition of approximate original contour to be adopted by the West Virginia DEP. Hobet Mining also agreed to seek an individual Clean Water Act Section 404 dredge and fill permit from the Corps as part of its future mining operation. Before issuing that permit, the Corps must first complete an EIS to comply with the provisions of NEPA. The completion of this EIS and issuance of all permits are not expected until mid-2001 at the earliest.

The plaintiffs' allegation that the West Virginia DEP violated its duties under the Clean Water Act by authorizing the construction of valley fills under certain coal mining permits was not resolved by the consent decree. On October 20, 1999, the district court entered a permanent injunction against the West Virginia DEP prohibiting the issuance of any new permits that authorize the construction of valley fills as part of mining operations. The court concluded that the excess earth and rock that is placed in a valley fill during mining is not fill material, but rather is waste, which may not be placed in intermittent and perennial streams because the disposal of such material cannot meet applicable water quality standards.

The West Virginia DEP immediately complied with the district court's injunction by issuing an administrative order banning the expansion of nearly all existing valley fills as well as prohibiting the issuance of nearly all new permits for valley fills. The West Virginia DEP also filed an appeal of the district court's decision with the U.S. Court of Appeals for the Fourth Circuit. On October 29, 1999, the district court granted a stay of its decision, pending the outcome of the appeal. The West Virginia DEP rescinded its administrative order on November 1, 1999 in response to the district court's action.

It is impossible to predict the outcome of the West Virginia DEP's appeal. If, however, the district court's decision is upheld, the Company and other coal producers may be forced to close all or a portion of their mining operations in West Virginia because of the prohibition on constructing valley fills for their existing and future mines.

Cumulative Hydrologic Impact Assessment ("CHIA") Litigation. On January 20, 2000, two environmental organizations, the Ohio Valley Environmental Coalition and the Hominy Creek Watershed Association, filed suit against the West Virginia DEP in U.S. District Court in Huntington, West Virginia. In addition to allegations that the West Virginia DEP violated state law and provisions of the Clean Water Act, the plaintiffs allege that the West Virginia DEP's issuance of permits for surface and underground coal mining has violated certain non-discretionary duties mandated by SMCRA. Specifically, the plaintiffs allege that the West Virginia DEP has failed to require coal operators seeking permits (i) to conduct water monitoring to verify stream flows and ascertain water quality, (ii) to always include certain water quality information in their permit applications and (iii) to analyze the probable hydrologic consequences of their operations. The plaintiffs also allege that the West Virginia DEP has failed to analyze the cumulative hydrologic impacts of mining operations on specific watersheds.

The plaintiffs seek an injunction to prohibit the West Virginia DEP from issuing any new permits which fail to comply with all of the elements identified in their complaint. The complaint identifies, and seeks to enjoin, three pending permits that are sought by the Company's Mingo Logan subsidiary to continue existing surface mining operations at the Phoenix reserve. If the permits are not issued, it is possible that those operations will have to be suspended early in 2001. On May 1, 2000, the court denied the West Virginia DEP's motion to dismiss all claims in the lawsuit.

It is impossible to predict whether this litigation will result in a suspension of the affected surface mining operations. If, however, the operations are suspended, the Company's financial condition and results of operations could be adversely affected and, depending upon the length of the suspension, the effect could be material.

Lone Mountain Litigation. On October 24, 1996, the rock strata overlaying an abandoned underground mine adjacent to the coal-refuse impoundment used by the Lone Mountain preparation plant failed, resulting in the discharge of approximately 6.3 million gallons of water and fine coal slurry into a tributary of the Powell River in Lee County, Virginia.

The U.S. Department of the Interior has notified the Company that it intends to file a civil action under the Clean Water Act and the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") to recover the natural resource damages suffered as a result of the discharge. The Interior Department alleges that fresh water mussels listed on the federal Endangered Species List that reside in the Powell River were affected as a consequence of the discharge. The Company and the Interior Department have reached an agreement in principle to settle this matter, which would require a payment of \$2.5 million by the Company. The settlement is subject to the Company and the Interior Department entering into a definitive agreement. The Company's consolidated balance sheet as of March 31, 2000 reflects a reserve for the full amount of this settlement.

Other Litigation. On October 31, 1997, the EPA notified a Company subsidiary that it was a potentially responsible party in the investigation and remediation of two hazardous waste sites located in Kansas City, Kansas, and Kansas City, Missouri. The Company's involvement arises from the subsidiary's sale, in the mid-1980's, of fluids containing small quantities of polychlorinated biphenyls ("PCBs") to a company authorized to engage in the processing and disposal of these wastes. Some of these waste materials were sent to one of the sites for final disposal. The Company responded to the information request submitted by the EPA on December 1, 1997. Any liability which might be asserted by the EPA against the Company is not believed to be material because of the de minimis quantity and concentration of PCBs linked to the Company. Moreover, the party with which the subsidiary contracted to dispose of the waste material has agreed to indemnify the Company for any costs associated with this action.

#### CERTAIN TRENDS AND UNCERTAINTIES

##### Substantial Leverage; Variable Interest Rate; Restrictive Covenants

The Company has substantial leverage and significant debt service and lease and royalty payment obligations. As of March 31, 2000, the Company had outstanding consolidated indebtedness of approximately \$1.2 billion, representing approximately 84% of the Company's total capitalization.

The Company's ability to satisfy its debt service and lease payment obligations will depend upon the future operating performance of its subsidiaries, which will be affected by prevailing economic conditions in their markets, as well as financial, business and other factors, certain of which are beyond their control. Based upon current levels of operations, the Company believes that cash flow from operations and available cash, together with available borrowings under the Company's credit facilities, will be adequate to meet the Company's future liquidity needs for at least the next several years. However, there can be no assurance that the Company's business will generate sufficient cash flow from operations or that future borrowings will be available in an amount sufficient to enable the Company to fund its debt service and lease payment obligations or its other liquidity needs.

The degree to which the Company is leveraged could have material consequences to the Company and its business, including, but not limited to: (i) making it more difficult for the Company to satisfy its debt service, lease payment and other obligations; (ii) increasing the Company's vulnerability to general adverse economic and industry conditions; (iii) limiting the Company's ability to obtain additional financing to fund future acquisitions, working capital, capital expenditures or other general corporate requirements; (iv) reducing the availability of cash flow from operations to fund acquisitions, working capital, capital expenditures or other general corporate purposes; (v) limiting the Company's flexibility in planning for, or reacting to, changes in its business and the industry in which

it competes and (vi) placing the Company at a competitive disadvantage when compared to competitors with less debt.

A significant portion of the Company's indebtedness bears interest at variable-rates that are linked to short-term interest rates. If interest rates rise, the Company's costs relative to those obligations would also rise.

Terms of the Company's credit facilities and leases contain financial and other restrictive covenants that limit the ability of the Company to, among other things, pay dividends, effect acquisitions or dispositions and borrow additional funds and require the Company to, among other things, maintain various financial ratios and comply with various other financial covenants. 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.

#### Environmental and Regulatory Factors

Federal, state and local governmental authorities regulate the coal mining industry on matters as diverse as employee health and safety, air quality standards, water pollution, groundwater quality and availability, plant and wildlife protection, the reclamation and restoration of mining properties, the discharge of materials into the environment and surface subsidence from underground mining. In addition, federal legislation mandates certain benefits for various retired coal miners represented by the United Mine Workers of America ("UMWA"). These regulations and legislation have had and will continue to have a significant effect on the Company's costs of production and competitive position.

New legislation, regulations or orders may be adopted or become effective which may adversely affect the Company's mining operations, its cost structure or the ability of the Company's customers to use coal. For example, new legislation, regulations or orders may require the Company to incur increased costs or to significantly change its operations. New legislation, regulations or orders may also cause coal to become a less attractive fuel source, resulting in a reduction in coal's share of the market for fuels used to generate electricity. Any such regulation, legislation or order could have an adverse effect on the Company's business, results of operations and financial condition and, depending upon the nature and scope of the legislation, regulations or orders, the effect could be material.

Permits. Mining companies must obtain numerous permits that impose strict regulations in connection with coal mining, including the emission of air and water borne pollutants, the manner and sequencing of coal extractions and reclamation, the storage, use and disposal of non-hazardous and hazardous substances, and the construction of fills and impoundments. Because regulatory authorities have considerable discretion in the timing of permit issuance and because both private individuals and the public at large possess rights to comment on and otherwise engage in the permitting process, including through intervention in the courts, no assurance can be made that permits necessary for mining operations will be issued or, if issued, that such issuance will be timely or that permitting requirements will not be changed or interpreted in a manner that would have a material adverse effect on the Company's financial condition or results of operations.

As indicated by the legal action involving the Company's Dal-Tex operation which is discussed in "Contingencies - Legal Contingencies - Dal-Tex Litigation" above, the regulatory environment in West Virginia is changing with respect to coal mining. No assurance can be made that the Fourth Circuit will overturn the district court's decision in such legal action or that a legislative or other solution will be achieved. If the district court's ruling is not overturned or a legislative or other solution is not achieved, there could be a material adverse effect on the Company's financial condition or results of operations.

NOx Emissions. The use of explosives in surface mining causes oxides of nitrogen ("NOx") to be emitted into the air. The emission of NOx from the use of explosives at surface mines in the Powder River Basin is gaining increased scrutiny from regulatory agencies and the public. The Company has taken steps to monitor the level of NOx emitted during blasting activities at its surface mines in the Powder River Basin and is continuing efforts to find a method of reducing these NOx emissions. Any increase in the regulation of NOx emissions from blasting

activities could have an adverse effect on the Company's Powder River Basin surface mines. Depending upon the nature and scope of any such regulations, the effect on the mines could be material.

Kyoto Protocol. On December 11, 1997, the U.S. government representatives at the climate change negotiations in Kyoto, Japan, agreed to reduce the emissions of greenhouse gases (including carbon dioxide and other gas emissions that are believed to be trapping heat in the atmosphere and warming the earth's climate) in the United States. The U.S. adoption of the requirements of the Kyoto protocol is subject to conditions which may not occur and is also subject to the protocol's ratification by the U.S. Senate. The U.S. Senate has indicated that it will not ratify an agreement unless certain conditions, not currently provided for in the Kyoto protocol, are met. At present, it is not possible to predict whether the Kyoto protocol will attain the force of law in the United States or what its impact would be on the Company. Further developments in connection with the Kyoto protocol could have a material adverse effect on the Company's financial condition and results of operations.

Customers. In July 1997, the EPA proposed that twenty-two eastern states, including states in which many of the Company's customers are located, make substantial reductions in nitrous oxide emissions. The EPA expects the states to achieve these reductions by requiring power plants to reduce their nitrous oxide emissions by an average of 85%. To achieve such reductions, power plants would be required to install reasonably available control technology ("RACT") and additional control measures. Installation of RACT and additional control measures required under the EPA's proposal would make it more costly to operate coal-fired utility power plants and, depending on the requirements of individual state implementation plans and the development of revised new source performance standards, could make coal a less attractive fuel alternative in the planning and building of utility power plants in the future.

The EPA is also proposing to implement stricter ozone standards by 2003. The U.S. Court of Appeals for the District of Columbia Circuit has, however, enjoined the EPA from implementing the new ozone standards on constitutional and other legal grounds. Implementation of the standards may be delayed or precluded because of the injunction. The injunction may also result in modification of the proposed ozone standards.

The U.S. Department of Justice, on behalf of the EPA, has filed a lawsuit against seven investor-owned utilities and brought an administrative action against one government-owned utility for alleged violations of the Clean Air Act. The EPA claims that over thirty of these utilities' power stations have failed to obtain permits required under the Clean Air Act for major improvements which have extended the useful service of the stations or increased their generating capacity. The Company supplies coal to seven of the eight utilities. It is impossible to predict the outcome of this legal action. Any outcome that adversely affects the Company's customers or makes coal a less attractive fuel source could, however, have a material adverse effect on the Company's financial condition or results of operations.

#### Reserve Degradation and Depletion

The Company's profitability depends substantially on its ability to mine coal reserves that have the geologic characteristics that enable them to be mined at competitive costs. There can be no assurance that replacement reserves, particularly in central Appalachia, will be available when required or, if available, that such replacement reserves can be mined at costs comparable to those characteristic of the depleting mines. Exhaustion of reserves at particular mines can also have an adverse effect on operating results that is disproportionate to the percentage of overall production and operating income represented by such mines. Mingo Logan's Mountaineer Mine is estimated to exhaust its longwall mineable reserves in 2002. The Mountaineer Mine generated \$13.1 million of the Company's total operating income for the three months ended March 31, 2000.

#### Reliance on and Terms of Long-Term Coal Supply Contracts

The Company sells a substantial portion of its coal production pursuant to long-term coal supply agreements and, as a consequence, may experience fluctuations in operating results due to the expiration or termination of, or sales price redeterminations or suspensions of deliveries under such coal supply agreements. Other short- and long-term contracts define base or optional tonnage requirements by reference to the customer's requirements, which are

subject to change as a result of factors beyond the Company's (and in certain instances the customer's) control, including utility deregulation. In addition, certain price adjustment provisions permit a periodic increase or decrease in the contract price to reflect increases and decreases in production costs, changes in specified price indices or items such as taxes or royalties. Price reopener provisions provide for an upward or downward adjustment in the contract price based on market factors. The Company has from time to time renegotiated contracts after execution to extend the contract term or to accommodate changing market conditions. The contracts also typically include stringent minimum and maximum coal quality specifications and penalty or termination provisions for failure to meet such specifications and force majeure provisions allowing suspension of performance or termination by the parties during the duration of certain events beyond the control of the affected party. Contracts occasionally include provisions that permit a utility to terminate the contract if changes in the law make it illegal or uneconomic for the utility to consume the Company's coal or if the utility has unexpected difficulties in utilizing the Company's coal. Imposition of new nitrous oxide emissions limits in connection with Phase II of the Clean Air Act could result in price adjustments or in affected utilities seeking to terminate or modify long-term contracts in reliance on such termination provisions. If the parties to any long-term contracts with the Company were to modify, suspend or terminate those contracts, the Company could be adversely affected to the extent that it is unable to find alternative customers at a similar or higher level of profitability.

From time to time, disputes with customers may arise under long-term contracts relating to, among other things, coal quality, pricing and quantity. The Company may thus become involved in arbitration and legal proceedings regarding its long-term contracts. There can be no assurance that the Company will be able to resolve such disputes in a satisfactory manner.

Although the Company cannot predict changes in its costs of production and coal prices with certainty, the Company believes that in the current economic environment of low to moderate inflation, the price adjustment provisions in its older long-term contracts will largely offset changes in the costs of providing coal under those contracts, except for those costs related to changes in productivity. However, the increasingly short terms of sales contracts and the consequent absence of price adjustment provisions in such contracts also make it more likely that inflation related increases in mining costs during the contract term will not be recovered by the Company through a later price adjustment.

#### Potential Fluctuations in Operating Results; Seasonality

The Company may experience significant fluctuations in operating results in the future, both on an annual and quarterly basis, as a result of one or more factors beyond its control, including expiration or termination of, or sale price redeterminations or suspensions of deliveries under, coal supply agreements; disruption of transportation services; changes in mine operating conditions; changes in laws or regulations, including permitting requirements; unexpected results in litigation; work stoppages or other labor difficulties; competitive and overall coal market conditions; and general economic conditions.

The Company's mining operations are also subject to factors beyond its control that can negatively or positively affect the level of production and thus the cost of mining at particular mines for varying lengths of time. These factors include weather conditions, equipment replacement and repair requirements; variations in coal seam thickness, amount of overburden, rock and other natural materials; and other surface or subsurface conditions. Such production factors frequently result in significant fluctuations in operating results.

Third quarter results of operations are frequently adversely affected by lower production and resultant higher costs due to scheduled vacation periods at the majority of the Company's mines. In addition, costs are typically somewhat higher during vacation periods because of maintenance activity carried on during those periods. These adverse effects may prevent the third quarter from being comparable to the other quarters and also prevent the third quarter results from being indicative of results to be expected for the full year.

#### Certain Contractual Arrangements

The Company owns a 99% interest in Arch Western Resources, LLC ("Arch Western"), a joint venture that was formed in connection with the Company's acquisition of the U.S. coal operations of Atlantic Richfield Company on June 1, 1998. The Limited Liability Company Agreement pursuant to which Arch Western was formed provides that a subsidiary of the Company, as the managing member of Arch Western, generally has exclusive power and authority to conduct, manage and control the business of Arch Western. However, if Arch Western at the time has a debt rating less favorable than Ba3 from Moody's Investors Service or BB- from Standard & Poors Ratings Group or does not meet certain specified indebtedness and interest coverage ratios, then a proposal that Arch Western make certain distributions, incur indebtedness, sell properties or merge or consolidate with any other entity would require the consent of all the members of Arch Western.

In connection with the Arch Western transaction, the Company entered into an agreement pursuant to which the Company agreed to indemnify another member of Arch Western against certain tax liabilities in the event that such liabilities arise as a result of certain actions taken prior to June 1, 2013, 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 Arch Western transaction. Depending on the time at which any such indemnification obligation were to arise, it could have a material adverse effect on the business, results of operations and financial condition of the Company.

The membership interests in Canyon Fuel are owned 65% by Arch Western and 35% by a subsidiary of ITOCHU Corporation, a Japanese corporation. The agreement which governs the management and operations of Canyon Fuel provides for a Management Board to manage its business and affairs. Generally, the Management Board acts by affirmative vote of the representatives of the members holding more than 50% of the membership interests. However, certain actions require either the unanimous approval of the members or the approval of representatives of members holding more than 70% of the membership interests. The Canyon Fuel agreement also contains various restrictions on the transfer of membership interests in Canyon Fuel.

Pursuant to a stockholders agreement among the Company, Ashland and Carboex S.A. ("Carboex"), the Company has agreed to nominate for election as a director of the Company a person designated by Carboex, and Ashland has agreed to vote its shares of common stock in a manner sufficient to cause the election of such nominee, in each case for so long (subject to earlier termination in certain circumstances) as shares of common stock owned by Carboex represent at least 63% of the shares of common stock acquired by Carboex in the Company's merger with Ashland's subsidiary, Ashland Coal, Inc. The Agreement terminates as to Ashland once Ashland ceases to be the beneficial owner (as defined in Rule 13d-3(a) under the Securities Exchange Act of 1934) of 10% or more of the Company's common stock. In addition, for so long as the various trusts for the benefit of descendants of H.L. and Lyda Hunt and various corporations owned by trusts for the benefit of descendants of H.L. and Lyda Hunt (collectively the "Hunt Entities") have the collective voting power to elect one or more persons to serve on the Board of Directors of the Company, the Company has agreed to nominate for election as directors of the Company that number of persons designated by certain of the Hunt Entities that could be elected to the Board by the Hunt Entities by exercise of such voting power.

The Company's Amended and Restated Certificate of Incorporation requires the affirmative vote of the holders of at least two-thirds of outstanding common stock voting thereon to approve a merger or consolidation and certain other fundamental actions involving or affecting control of the Company. The Company's Bylaws require the affirmative vote of at least two-thirds of the members of the Board of Directors of the Company in order to declare dividends and to authorize certain other actions.

#### Transportation

The coal industry depends on rail, trucking and barge transportation to deliver shipments of coal to customers. Disruption of these transportation services could temporarily impair the Company's ability to supply coal to its customers and thus adversely affect the Company's business and operating results. In addition, transportation costs are a significant component of the total cost of supplying coal to customers and can significantly affect a coal

producer's competitive position and profitability. Increases in the Company's transportation costs, or changes in such costs relative to transportation costs incurred by providers of competing coal or of other fuels, could have an adverse effect on the Company's business and results of operations.

#### Reliance on Estimates of Reserves; Title

There are numerous uncertainties inherent in estimating quantities of recoverable reserves, including many factors beyond the control of the Company. Estimates of economically recoverable coal reserves and net cash flows necessarily depend upon the number of variable factors and assumptions, such as geological and mining conditions (which may not be fully identified by available exploration data and/or differ from experience in current operations), historical production from the area compared with production from other producing areas, the assumed effects of regulation by governmental agencies and assumptions concerning coal prices, operating costs, severance and excise taxes, development costs and reclamation costs, all of which may cause estimates to vary considerably from actual results.

For these reasons, estimates of the economically recoverable quantities attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of net cash flows expected therefrom prepared by different engineers or by the same engineers at different times may vary substantially. Actual coal tonnage recovered from identified reserve areas or properties and revenues and expenditures with respect to the Company's reserves may vary from estimates, and such variances may be material. No assurance can be given that these estimates are an accurate reflection of the Company's actual reserves.

The Company's mining operations are conducted on properties owned or leased by the Company. The loss of any lease could adversely affect the Company's ability to develop the applicable reserves. Because title to most of the Company's leased properties and mineral rights is not usually verified until a commitment is made by the Company to develop a property, which may not occur until after the Company has obtained necessary permits and completed exploration of the property, the Company's right to mine certain of its reserves may be adversely affected if defects in title or boundaries exist. In addition, there can be no assurance that the Company can successfully negotiate new leases or mining contracts for properties containing additional reserves or maintain its leasehold interests in properties on which mining operations are not commenced during the term of the lease.

#### Factors Routinely Affecting Results of Operations

Any one or a combination of the following factors may occur at times or in a manner that causes results of the Company's operations to deviate from expectations: changing demand; fluctuating selling prices; contract penalties, suspensions or terminations; operational, geologic, transportation and weather-related factors; unexpected regulatory changes; results of litigation; or labor disruptions. Any event disrupting substantially all production at any of the Company's principal mines for a prolonged period would have a material adverse effect on the Company's current and projected results of operations. The effect of such a disruption at the Mingo Logan operations would be particularly severe because of the high volume of coal produced by those operations and the relatively high contribution to operating income from the sale of such coal.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and is incorporated herein by reference.



PART II - OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

The information required by this Item is contained in the second through sixteenth paragraphs of the "Contingencies - Legal Contingencies" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

- (a) The Company's Annual Meeting of Stockholders was held on May 4, 2000, at the Company's headquarters at CityPlace One, Suite 300, St. Louis, Missouri, at 10:00 a.m.
- (b) At such Annual Meeting, the holders of the Company's common stock elected the following nominees for director:

Nominee -----	Total Votes For -----	Total Votes Withheld -----
Philip W. Block	33,271,856	3,754,466
James R. Boyd	33,271,860	3,754,462
Ignacio Dominguez Urquijo	34,032,500	2,993,822
Thomas L. Feazell	34,032,416	2,993,906
Robert L. Hintz	34,031,518	2,994,804
Douglas H. Hunt	34,032,522	2,993,800
Steven F. Leer	33,271,840	3,754,482
James L. Parker	34,032,522	2,993,800
A. Michael Perry	34,031,522	2,994,800
Theodore D. Sands	34,032,522	2,993,800

At such Annual Meeting, the Company's stockholders, by a vote of 29,732,655 for and 4,806,483 against, with 5,710 abstentions, also approved and adopted an Amended and Restated Certificate of Incorporation.

At such Annual Meeting, the Company's stockholders, by a vote of 37,018,095 for and 7,476 against, with 751 abstentions, also ratified the appointment of Ernst & Young LLP as the Company's independent auditors for 2000.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a)
  - 2.1 Purchase and Sale Agreement dated as of March 22, 1998 among Atlantic Richfield Company, ARCO Uinta Coal Company, Arch Coal, Inc. and Arch Western Acquisition Corporation (incorporated herein by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed June 15, 1998)

- 2.2 Contribution Agreement among Arch Coal, Inc., Arch Western Acquisition Corporation, Atlantic Richfield Company, Delta Housing, Inc., and Arch Western Resources LLC, dated as of March 22, 1998 (incorporated herein by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K filed June 15, 1998)
- 3.1 Amended and Restated Certificate of Incorporation of Arch Coal, Inc. (filed herewith)
- 3.2 Amended and Restated Bylaws of Arch Coal, Inc. (filed herewith)
- 4.1 Stockholders Agreement, dated as of April 4, 1997, among Carboex International, Ltd. Ashland Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
- 4.2 Assignment of Rights, Obligations and Liabilities under the Stockholders Agreement between Carboex International, Limited and Carboex, S.A. effective as of October 15, 1998 (incorporated herein by reference to Exhibit 4.2 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 4.3 Registration Rights Agreement, dated as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Inc., Carboex International, Ltd. and the entities listed on Schedules I and II thereto (incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997, except for amended Schedule I thereto, incorporated herein by reference to Exhibit 4.2 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1998)
- 4.4 Assignment of Registration Rights between Carboex International, Limited and Carboex, S.A. effective as of October 15, 1998 (incorporated herein by reference to Exhibit 4.4 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 4.5 Agreement Relating to Nonvoting Observer, executed as of April 4, 1997, among Carboex International, Ltd., Ashland Inc., Ashland Coal, Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (incorporated herein by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
- 4.6 Assignment of Right to Maintain a Non-Voting Observer at Meetings of the Board of Directors of Arch Coal, Inc. between Carboex International, Limited and Carboex, S.A. effective as of October 15, 1998 (incorporated herein by referenced to Exhibit 4.6 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
- 4.7 Agreement for Termination of the Arch Mineral Corporation Voting Agreement and for Nomination of Directors, dated as of April 4, 1997, among Hunt Coal Corporation, Petro-Hunt Corporation, each of the trusts listed on Schedule I thereto, Ashland Inc. and Arch Mineral Corporation (incorporated herein by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
- 4.8 \$600,000,000 Revolving Credit Facility, \$300,000,000 Term Loan Credit Agreement by and among Arch Coal, Inc., the Lenders party thereto, PNC Bank, National Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as Syndication Agent, and First Union National Bank, as Documentation Agent, dated as of June 1, 1998 (incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed June 15, 1998)
- 4.9 Amendment 1 to Credit Agreement by and among Arch Coal, Inc., the Lenders party thereto, PNC Bank, National Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as

Syndication Agent, and First Union National Bank, as Documentation Agent, dated as of January 21, 2000 (incorporated herein by reference to Exhibit 4.9 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1999)

- 4.10 \$675,000,000 Term Loan Credit Agreement by and among Arch Western Resources, LLC, the Banks party thereto, PNC Bank, National Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as Syndication Agent, and NationsBank N.A., as Documentation Agent dated as of June 1, 1998 (incorporated herein by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed June 15, 1998)
- 4.11 Omnibus Amendment Agreement dated as of June 1, 1998 in respect to Arch Coal Trust no. 1998-1, Parent Guaranty and Suretyship Agreement, Lease Intended as Security, Subsidiary Guaranty and Suretyship Agreement, each dated as of January 15, 1998, among Apogee Coal Company, Catenary Coal Company, Hobet Mining, Inc. Arch Coal, Inc., Great-West Life & Annuity Insurance Company, Bank of Montreal, Barclays Bank, PLC, First Union National Bank, BA Leasing and Capital Corporation, First Security Bank, National Association, Arch Coal Sales Company, Inc., Ark Land Company and Mingo Logan Coal Company (incorporated herein by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed June 15, 1998)
- 4.12 Lease Intended as Security dated as of January 15, 1998, among Apogee Coal Company, Catenary Coal Company and Hobet Mining, Inc., as Lessees; The First Security Bank, National Association, as Lessor, and the Certificate Purchasers named therein (incorporated herein by reference to Exhibit 4.5 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1997)
- 4.13 Form of Rights Agreement, dated March 3, 2000, between Arch Coal, Inc. and First Chicago Trust Company of New York, as Rights Agent (incorporated herein by reference to Exhibit 1 to a Current Report on Form 8-A filed on March 9, 2000)
- 18 Preferability Letter of Ernst & Young LLP dated May 11, 1999 (incorporated herein by reference to Exhibit 18 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999)
- 27 Financial Data Schedule
- (b) Reports on Form 8-K

A report on Form 8-K dated March 9, 2000 (announcing the Board of Directors' declaration of a dividend of one preferred share purchase right for each outstanding share of the Company's common stock, payable to stockholders of record on March 20, 2000) was filed during the quarter ended March 31, 2000.

SIGNATURES

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

ARCH COAL, INC.  
-----  
(Registrant)

Date: May 12, 2000

/s/ John W. Lorson  
-----  
John W. Lorson  
Controller  
(Chief Accounting Officer)

Date: May 12, 2000

/s/ Robert G. Jones  
-----  
Robert G. Jones  
Vice President, Law and General Counsel  
(Duly Authorized Officer)

Arch Coal, Inc.  
Form 10-Q for Quarter Ended March 31, 2000

INDEX TO EXHIBITS

- 3.1 Amended and Restated Certificate of Incorporation of Arch Coal, Inc. (filed herewith)
- 3.2 Amended and Restated Bylaws of Arch Coal, Inc. (filed herewith)
- 27 Financial Data Schedule

AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
ARCH COAL, INC.

\* \* \* \* \*

1. The name of the Corporation is Arch Coal, Inc. The Corporation's original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on June 20, 1969.

2. This Amended and Restated Certificate of Incorporation restates and integrates and also further amends in certain respects the Corporation's Restated Certificate of Incorporation.

3. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with the applicable provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

\* \* \* \* \*

FIRST: The name of the Corporation is Arch Coal, Inc. (hereinafter referred to as the "Corporation").

SECOND: The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle, and the name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a Corporation may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is One Hundred Ten Million (110,000,000), which shall be divided into two classes as follows:

A. One Hundred Million (100,000,000) shares of Common Stock, the par value of which shares is One Cent (\$.01) per share; and

B. Ten Million (10,000,000) shares of Preferred Stock, the par value of which shares is One Cent (\$.01) per share. The Corporation's Board of Directors is hereby expressly authorized to provide by resolution or resolutions from time to time for the issuance of the Preferred Stock in one or more series, the shares of each of which series to have such voting rights and the terms

and conditions for the exercise thereof, provided that the holders of shares of Preferred Stock (1) will not be entitled to more than the lesser of (x) one vote per \$100 of liquidation value or (y) one vote per share, when voting as a class with the holders of shares of other capital stock, and (2) will not be entitled to vote on any matter separately as a class, except to the extent required by law or as specified with respect to each series with respect to (x) any amendment or alteration of the provisions of this Certificate of Incorporation that would adversely affect the powers, preferences, or special rights of the applicable series of Preferred Stock or (y) the failure of the Corporation to pay dividends on any series of Preferred Stock in full for any six quarterly dividend payment periods, whether or not consecutive, in which event the number of directors may be increased by two and the holders of outstanding shares of Preferred Stock then similarly entitled shall be entitled to elect the two additional directors until full accumulated dividends on all such shares of Preferred Stock shall have been paid; and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be permitted under the General Corporation Law of the State of Delaware and as shall be stated in the resolution or resolutions providing for the issuance of such stock adopted by the Board of Directors pursuant to the authority expressly vested in the Board of Directors in the Bylaws.

FIFTH:

A. The business and affairs of the Corporation shall be managed by or under the direction of a board of directors consisting of such number of directors as is determined from time to time by resolution adopted by affirmative vote of not less than two-thirds of the members of the entire board of directors; provided, however, that in no event shall the number of directors be less than three (3). Effective upon the filing of this Amended and Restated Certificate of Incorporation, the directors shall be divided into three (3) classes, designated Class I, Class II and Class III. Class I directors shall initially serve for a term ending at the annual meeting of stockholders of the Corporation held in year 2001, Class II directors shall initially serve for a term ending at the annual meeting of stockholders of the Corporation held in year 2002 and Class III directors shall initially serve for a term ending at the annual meeting of stockholders of the Corporation held in year 2003. At each succeeding annual meeting of stockholders beginning with the annual meeting of stockholders held in year 2001, successors to the class of directors whose term expires at such annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, incapacitation or removal from office, and except as otherwise required by law. In the event such election is not held at an annual meeting of stockholders, it shall be held at any adjournment thereof or at a special meeting.

B. Except as otherwise required by law, any vacancy on the board of directors that results from an increase in the number of directors shall be filled only by a majority of the board of directors then in office, provided that a quorum is present, and any other vacancy occurring in the board of directors shall be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his or her predecessor.

C. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Amended and Restated Certificate of Incorporation applicable thereto and such directors so elected shall not be divided into classes pursuant to this Article FIFTH, in each case unless expressly provided by such terms.

SIXTH: Except as otherwise fixed pursuant to the provisions of ARTICLE FOURTH hereof relating to the voting rights of the holders of any class or series of Preferred Stock:

1. The affirmative vote of the holders of not less than two-thirds of the shares of Common Stock voting thereon, in the manner and to the extent permitted in the Bylaws, shall be required to:

(i) Adopt an agreement or plan of merger or consolidation;

(ii) Authorize the sale, lease or exchange of all or substantially all of the property and assets of the Corporation;

(iii) Authorize the disposition of the Corporation or the distribution of all or substantially all of the assets of the Corporation to its stockholders; or

(iv) Amend, alter, supplement, repeal or adopt any provision inconsistent with Article FOURTH, Article FIFTH, this ARTICLE SIXTH or Article TENTH.

2. On all other matters, the affirmative vote of a majority of the shares of Common Stock voting therein will be required unless a greater vote is required by law.

3. Voting by the stockholders for the election of directors or on any other matter need not be by written ballot.

SEVENTH: All actions required to be taken or which may be taken at any annual or special meeting of stockholders of the Corporation must be taken at a duly called annual or special meeting of stockholders, and cannot be taken by a consent in writing without a meeting.



EIGHTH: Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time by any two or more directors. Such special meetings may not be called by any other person or persons or in any other manner. Only such business will be conducted at any such special meeting as is brought before the meeting in accordance with the notice of the meeting.

NINTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter or repeal the Bylaws of the Corporation as therein provided.

TENTH: The Corporation hereby expressly elects not to be governed by Section 203 of the General Corporation Law of the State of Delaware.

ELEVENTH: No director shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of such director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the General Corporation Law of the State of Delaware or (iv) for any transaction from which such director derived an improper personal benefit. No repeal of or amendment to this Article ELEVENTH shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such repeal or amendment. If the General Corporation Law of the State of Delaware is amended to authorize corporate action further eliminating the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as amended.

TWELFTH: The Corporation reserves the right to amend or repeal any provision contained in this Amended and Restated Certificate of Incorporation in the manner from time to time prescribed herein and by the laws of the State of Delaware. All rights herein conferred are granted subject to this reservation.

BYLAWS  
OF  
ARCH COAL, INC.

BYLAWS

of

ARCH COAL, INC.

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BYLAWS

of

ARCH COAL, INC.

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ARTICLE I - MEETINGS OF STOCKHOLDERS  
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Section 1. Annual Meeting.  
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The annual meeting of the stockholders of the Corporation shall be held at such date, time and place as shall be designated by the Board of Directors and stated in the notice of the meeting.

Section 2. Special Meeting.  
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Special meetings of the stockholders may be called at any time by any two or more members of the Board of Directors to be held at such date, time and place within the United States as shall be designated in the notice thereof.

Section 3. Notice of Meetings.  
-----

Written notice of the place, date and time of each meeting of the stockholders shall be given in the manner provided in Article XII, not less than ten nor more than sixty days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the General Corporation Law of Delaware). The notice of any special meeting shall state the purpose or purposes for which the special meeting is called and shall indicate that such notice is being issued upon the request of the person or persons calling the meeting.

Upon the written request of the person or persons calling any special meeting, notice of such meeting shall be given by the Secretary of the Corporation on behalf of such person or persons. Every request to the Secretary for the giving of notice of a special meeting of stockholders shall state the purpose or purposes of such meeting.

If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation.

Section 4. Quorum.

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Subject to the requirements of applicable law, the Restated Certificate of Incorporation, as amended from time to time (hereafter the Certificate of Incorporation), and these Bylaws in respect of the vote required for a specified action, at any meeting of the stockholders, the holders of a majority of the outstanding shares of stock entitled to vote, present in person or by proxy, shall constitute a quorum for the transaction of business.

Notwithstanding the foregoing, if a quorum shall fail to attend any meeting, the presiding person of the meeting or the holders of a majority of the stock, present in person or by proxy, may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 5. Conduct of Business.

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The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 6. Proxies and Voting.

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Except as may be otherwise provided by law, the Certificate of Incorporation or these Bylaws, (i) each stockholder of record present in person or by proxy shall be

entitled, at every stockholders' meeting, to one vote for each share of capital stock having voting power standing in the name of such stockholder on the books of the Corporation, and (ii) the affirmative vote of a majority of the shares voting thereon at a duly organized meeting and entitled to vote on the subject matter shall be the act of the stockholders.

At any meeting of the stockholders, every stockholder entitled to vote may vote in person or by proxy, authorized by an instrument in writing or in such manner as may be prescribed by the Delaware General Corporation Law, filed in accordance with the procedure established for the meeting.

Section 7. Waiver of Notice.  
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Notices of meetings need not be given to any stockholder who submits a written waiver of notice, signed in person or by proxy, whether before or after the meeting. The purpose or purposes of any meeting of stockholders shall be specified in any such waiver of notice. Attendance of a stockholder at a meeting, in person or by proxy, shall constitute a waiver of notice of such meeting, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 8. Adjournments.  
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Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 9. Record Date.  
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In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which record date shall not be more than sixty nor less than ten days before the date of any meeting of stockholders, nor more than sixty days prior to the time for such other action as hereinbefore described; provided, however, that if no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding



the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and, for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 10. Inspectors of Election.  
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The Corporation may, and shall if required by law, in advance of any meeting of stockholders, appoint one or more inspectors of election, who may be employees of the Corporation, to act at the meeting or any adjournment thereof and to make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. In the event that no inspector so appointed or designated is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of such inspector's duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of such inspector's ability. The inspector or inspectors so appointed or designated shall (i) ascertain the number of shares of capital stock of the Corporation outstanding and the voting power of each such share, (ii) determine the shares of capital stock of the Corporation represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares of capital stock of the Corporation represented at the meeting and such inspectors' count of all votes and ballots. Such certification and report shall specify such other information as may be required by law. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the Corporation, the inspectors may consider such information as is permitted by applicable law. No person who is a candidate for an office at an election may serve as an inspector at such election.

Section 11. List of Stockholders Entitled to Vote.  
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The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to

the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. Upon the willful neglect or refusal of the Directors to produce such a list at any meeting for the election of Directors, they shall be ineligible for election to any office at such meeting. Except as otherwise provided by law, the stock ledger shall be the only evidence as to who are the stockholders entitled to vote in person or by proxy at any meeting of stockholders or to examine the stock ledger, the list of stockholders or the books of the Corporation.

Section 12. Advisory Stockholder Votes.

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In order for stockholders to adopt or approve any precatory proposal submitted to them for the purpose of requesting the Board of Directors to take certain actions, the affirmative vote of the holders of shares of capital stock having at least a majority of the vote which could be cast by the holders of all shares of capital stock entitled to vote thereupon, voting as a single class, must be voted in favor of the proposal.

ARTICLE II - BOARD OF DIRECTORS

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Section 1. Power of the Directors.

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The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all the powers of the Corporation and do all lawful acts and things which are not conferred upon or reserved to the stockholders by law or by the Certificate of Incorporation.

Section 2. Number and Term of Office; Election.

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Subject to the provisions of the Certificate of Incorporation and the restriction that the number of Directors shall not be less than the number required by the laws of the State of Delaware, the number of Directors shall be fixed, from time to time, by a resolution adopted by the affirmative vote of not less than two-thirds of the members of the entire Board of Directors; provided, however, that in no event shall the number of Directors be less than three (3).

The Directors shall be divided into three (3) classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the whole number of the Board of Directors. Class I Directors shall initially serve for a term ending at the annual meeting of stockholders of the Corporation held in year 2001, Class II Directors shall initially serve for a term ending at the annual meeting of stockholders of the Corporation held in year 2002 and Class III Directors shall initially serve for a term ending at the annual meeting of stockholders of the Corporation held in year 2003. At each succeeding annual meeting of stockholders beginning with the annual meeting of stockholders held in year 2001, successors to the class of Directors whose term expires at such annual meeting shall be elected for a three-year term. If the number of Directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of Directors in each class as nearly equal as possible, and any additional Director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of Directors shorten the term of any incumbent Director. A Director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, incapacitation or removal from office, and except as otherwise required by law. In the event such election is not held at an annual meeting of stockholders, it shall be held at any adjournment thereof or at a special meeting. This paragraph of Article II, Section 2 is also contained in Article FIFTH, Section (A) of the Corporation's Certificate of Incorporation, and accordingly, may be altered, amended or repealed only to the extent and at the time the comparable Certificate Article is altered, amended or repealed.

Section 3. Notice of Stockholder Business and Nominations.

A. Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of meeting delivered pursuant to Section 3 of Article I of these Bylaws, (b) by or at the direction of the Chairman or the Board of Directors, (c) with respect to those persons to be elected by any class or classes of Preferred Stock of the Corporation, by any holder of such class or classes of Preferred Stock, or (d) other than with respect to those persons to be elected by any class or classes of Preferred Stock of the Corporation, by any stockholder of the Corporation who is entitled to vote at the meeting who complied with the procedures set forth in this Bylaw and who was a stockholder of record at the time such notice is delivered to the Secretary of the Corporation.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (d) of subparagraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than seventy days nor more than ninety days prior to the first anniversary of the preceding year's Annual Meeting; provided, however, that in the event that the date of the Annual Meeting is advanced by more than twenty days, or delayed by more than seventy days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the ninetieth day prior to such Annual Meeting and not later than the close of business on the later of the seventieth day prior to such Annual Meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a Director all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of subparagraph (A) (2) of this Bylaw to the contrary, in the event that the number of Directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Corporation at least eighty days prior to the first anniversary of the preceding year's Annual Meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

#### B. Special Meetings of Stockholders.

Only such business shall be conducted at a Special Meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting pursuant to Section 3 of Article I of these Bylaws. Nominations of persons for election to the Board of Directors may be made at a Special Meeting of stockholders at which Directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in this Bylaw and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. Nominations by stockholders of persons for election to the Board of Directors may be made at such a Special Meeting of stockholders if the stockholder's notice as required by subparagraph (A) (2) of this Bylaw shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the ninetieth day prior to such Special Meeting and not later than the close of business on the later of the seventieth day prior to such Special Meeting or the tenth day following the day on which public announcement is first made of the date of the Special Meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

#### C. General.

(1) Only persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as Directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights of stockholders to request inclusion of or the obligation of the Corporation to include proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 4. Election.  
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Except as otherwise provided in the Certificate of Incorporation, at each meeting of the stockholders for the election of a class of Directors at which a quorum is present, the persons receiving the greatest number of votes shall be elected as Directors of such class.

Section 5. Vacancies.  
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Except as otherwise fixed pursuant to the provisions of Article FOURTH of the Corporation's Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect Directors:

(a) Except as otherwise required by law, any vacancy on the Board of Directors that results from an increase in the number of Directors shall be filled only by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring in the Board of Directors shall be filled by a majority of the Directors then in office, even if less than a quorum, or by a sole remaining Director.

(b) Any Director elected to fill a vacancy not resulting from an increase in the number of Directors shall have the same remaining term as that of his or her predecessor.

This Article II, Section 5 is also contained in Article FIFTH, Section (B) of the Corporation's Certificate of Incorporation, and accordingly, may be altered, amended or repealed only to the extent and at the time such provision of the Certificate of Incorporation is altered, amended or repealed.

Section 6. Resignation.  
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Any Director may resign at any time by giving written notice of resignation to the Board of Directors, the Chairman of the Board, the President or the Secretary. Any such resignation shall take effect at the time specified therein, or, if the time when it shall become effective shall not be specified therein, then it shall take effect when accepted by action of the Board of Directors. Except as aforesaid, the acceptance of such resignation shall not be necessary to make it effective.

Section 7. Removal.  
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A Director or Directors may be removed from office only as provided in the Corporation's Certificate of Incorporation and if not so provided, then in accordance with the provisions of applicable law.

Section 8. Regular Meetings.  
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Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall be established by the Board of Directors and publicized among all Directors.

Section 9. Special Meetings.  
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Special meetings of the Board of Directors may be called by any two of the Directors, the Chairman of the Board, the President or Chief Executive Officer and shall be held at such place within the United States, on such date and at such time as the person or persons calling the meeting shall fix.

Section 10. Notice of Meeting.  
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Notice of the date, place, time and purpose or purposes of each meeting of the Directors shall be given to each Director in the manner provided in Article XII at such Director's usual place of business at least three business days before the day on which the meeting is to be held. Upon written request of the person or persons calling any special meeting, notice of such meeting shall be given by the Secretary on behalf of such person or persons and shall indicate the person or persons calling the meeting.

Section 11. Quorum.  
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At all meetings of the Board of Directors, the presence of a majority of the whole Board of Directors fixed by or in the manner provided in these Bylaws shall constitute a quorum for the transaction of business.

Section 12. Manner of Acting.  
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A. Except as otherwise provided in subsection B of this Section 12, the vote of a majority of the Directors present at a meeting at which a quorum is present shall be

necessary for the passage of any resolution or act of the Board of Directors.

B. The vote of not less than two-thirds of the entire Board of Directors shall be necessary for the passage of any resolution or act of the Board of Directors in respect of the following:

(i) the declaration of a dividend or distribution on any capital stock of the Corporation not otherwise entitled to such dividend or distribution pursuant to the terms thereof;

(ii) the approval of the Corporation's annual budget or operating plan and any material modification thereof, including any capital expenditure in excess of Ten Million Dollars (\$10,000,000) not provided for in the annual budget;

(iii) the election or removal of the Chief Executive Officer, Chief Financial Officer or Chief Operating Officer (if any) of the Corporation;

(iv) except for the issuance of Common Stock pursuant to a compensation plan approved by the Board of Directors, the issuance of more than One Million (1,000,000) shares of Common Stock or any shares of Preferred Stock in any one transaction or a series of related transactions;

(v) the adoption of a share purchase rights plan of a nature commonly referred to as a stockholders right plan;

(vi) the repurchase or redemption of any capital stock of the Corporation;

(vii) an establishment or change in the number of Directors of the Corporation;

(viii) the appointment of members to or dissolution of the Executive Committee; or

(ix) the amendment of this Section 12 of these Bylaws.

Section 13. Participation in Meetings by Conference Telephone.

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Members of the Board of Directors, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear and speak to each other, and such participation shall constitute the presence in person at such meeting.



Section 14. Action by Consent.

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Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting, prior notice, or vote if a consent in writing, which writing may be in counterparts which may bear telecommunicated facsimile signatures, setting forth the action so taken, is signed by all members of the Board or committee, and such writing is filed with the minutes of the proceedings of the Board or committee.

Section 15. Organization.

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Meetings of the Board of Directors shall be presided over by the Chairman of the Board or in the Chairman's absence by the Chief Executive Officer, or in their absence by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in the Secretary's absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 16. Executive Committee.

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The Board of Directors may establish an Executive Committee to consist of such Directors as the Board shall from time to time designate. The Executive Committee shall to the extent permitted by law have and may exercise such powers and authority as the Board shall from time to time determine. The Executive Committee shall record minutes of each of its meetings and shall submit the same to the Board at the first meeting of the Board held subsequent to such meeting of the Executive Committee. At all meetings of the Executive Committee, a majority of the total number of the members thereof shall constitute a quorum for the transaction of business. A majority vote of the members of the Executive Committee who are present shall be the act of the Executive Committee.

Section 17. Audit Committee.

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The Board may by resolution designate an Audit Committee consisting of three or more Directors. Vacancies on the Audit Committee may be filled by the Board at any time and any member of the Audit Committee shall be subject to removal, with or without cause, at any time by resolution passed by the Board.

The Audit Committee shall review with the independent public accountants for the Corporation the scope of their examination, receive copies of the reports of such accountants, meet with representatives of such accountants for the purpose of reviewing and considering questions relating to such accountants' examination and such reports, review, either directly or through such accountants, the internal accounting and auditing procedures of the Corporation, report the results of the foregoing to the Board and act upon such other matters as may be referred to it by the Board.

At each meeting of the Board the Audit Committee shall make a report of all action taken by it since its last report to the Board.

The Audit Committee shall meet as often as may be deemed necessary and expedient at such times and places as shall be determined by the members of the Audit Committee. A majority of the members of the Audit Committee shall constitute a quorum. In the absence of the Chairman of the Audit Committee, the Audit Committee may appoint any member to preside at meetings thereof.

Section 18. Other Committees.  
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The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more other committees, each of which shall consist of one or more Directors. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Each such committee shall have and may exercise such powers and authority of the Board of Directors in the management of the business and affairs of the Corporation as the Board shall provide in the resolution designating such committee, except as otherwise provided by statute.

Section 19. Waiver of Notices.  
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Notice of a meeting need not be given to any Director who submits a written waiver of notice signed by such Director, including a telecommunicated facsimile waiver, whether before or after the meeting. The purpose or purposes of any meeting of the Directors must be specified in any such waiver of notice. Attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except when the Director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 20. Compensation of Directors.  
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Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors shall have the authority to fix the compensation of Directors. The Directors may be paid their expenses, if any, for attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as Director, or both. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE III - OFFICERS

Section 1. Election and Appointment; Term of Office.

The officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents (the number thereof to be determined from time to time by the Board), a Treasurer, a Secretary and a Controller. The Board shall designate either the Chairman of the Board or the President as the Chief Executive Officer of the Corporation. Each such officer shall be elected by the Board at its annual meeting to serve at the will and pleasure of the Board and shall hold office until the next annual meeting of the Board and until such officers' successor is elected or until such officer's earlier death, resignation or removal in the manner hereinafter provided. The Board may elect or appoint such other officers (including one or more Assistant Treasurers and one or more Assistant Secretaries) as it deems necessary who shall have such authority and shall perform such duties as the Board may prescribe. If additional officers are elected or appointed during the year, each of them shall hold office until the next annual meeting of the Board at which officers are regularly elected or appointed and until such officer's successor is elected or appointed or until such officer's earlier death, resignation or removal in the manner hereinafter provided. To the extent the Board shall deem appropriate, more than one of the offices authorized herein may be held by the same person.

Section 2. Resignation; Removal; Vacancies.

A. Resignation. Any officer may resign at any time by giving written notice to the Chief Executive Officer or the Secretary of the Corporation, and such resignation shall take effect upon receipt unless specified therein to be effective at some other time (subject always to the provisions of Section 2.B). No acceptance of any such resignation shall be necessary to make it effective.

B. Removal. All officers and agents elected or appointed by the Board shall be subject to removal at any time by the Board with or without cause.

C. Vacancies. A vacancy in any office may be filled for the unexpired portion of the term in the same manner as provided for election or appointment to such office.

Section 3. Duties and Functions.

A. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the stockholders and Directors and shall perform such other duties as the Board may prescribe.

B. President. In the absence, refusal or incapacity of the Chairman of the Board, or the Chief Executive Officer (if the President shall not be designated as such) the President shall perform the duties of such office, except those of presiding at meetings of Directors. If the President shall not be designated as the Chief Executive

Officer by the Board pursuant to Section 1, the President shall act under the control of the Chief Executive Officer.

C. Chief Executive Officer. Subject to the direction and control of the Board, the Chief Executive Officer shall have responsibility for the management and control of the affairs and business of the Corporation and shall perform all duties and have all powers which are commonly incident to the office of the Chief Executive Officer, including the power to enter into commitments, execute and deliver contracts and do and perform all such other acts and things as are necessary and appropriate to accomplish the Corporation's business and operations and to manage the business and affairs of the Corporation. The Chief Executive Officer may assign such duties to other officers of the Corporation as the Chief Executive Officer deems appropriate.

D. Chief Operating Officer. In the event the President is not designated as Chief Executive Officer pursuant to Section 1, the President may, in the Board's discretion, be designated as the Chief Operating Officer of the Corporation and shall have such powers and duties as the Board, or Chief Executive Officer, may prescribe.

E. Vice Presidents. The Vice Presidents shall have such powers and perform such duties as the Board or the Chief Executive Officer may prescribe. One or more Vice Presidents may be given and shall use as part of the title such other designations, including, without limitation, the designations "Executive Vice President" and "Senior Vice President," as the Board or the Chief Executive Officer may designate from time to time. One of the Vice Presidents may also be given and shall use as part of the title such other designations as may be descriptive of descriptive responsibilities, including, without limitation, designations such as "Chief Financial Officer" or "General Counsel," as the Board or the Chief Executive Officer may designate from time to time. In the absence, refusal or incapacity of the Chairman of the Board and the President, the powers and duties of the Chief Executive Officer shall be vested in and performed by such Vice Presidents as have the designation "Executive Vice President," in the order of their seniority or as otherwise established by action of the Board from time to time, or by such other officer as the Board or the Chief Executive Officer shall have most recently designated for that purpose in a writing filed with the Secretary.

F. Treasurer. The Treasurer shall act under the direction of the Chief Executive Officer. The Treasurer shall have charge and custody of and be responsible for all funds and securities of the Corporation and the deposit thereof in the name and to the credit of the Corporation in such depositories as may be designated by the Board or by the Treasurer pursuant hereto. The Treasurer shall be authorized at any time, and from time to time, by a writing countersigned by the Chief Executive Officer, to open bank accounts in the name of the Corporation in any bank or trust company for the deposit therein of any funds, drafts, checks or other orders for the payment of money to the Corporation; and the Treasurer shall be authorized at any time, and from time to time, by a writing countersigned by the Chairman of the Board, to authorize and empower any representative or agent of the Corporation to draw upon or sign for the Corporation

either manually or by the use of facsimile signature, any and all checks, drafts or other orders for the payment of money against such bank accounts which any such bank or trust company may pay without further inquiry.

G. Secretary. The Secretary shall act under the direction of the Chairman of the Board. The Secretary shall attend all meetings of the Board, the Executive Committee and the stockholders and record the proceedings in a book to be kept for that purpose and shall perform like duties for committees designated by the Board. The Secretary shall duly give or cause to be given, in accordance with the provisions of these Bylaws or as required by law, notice of all meetings of the stockholders and special meetings of the Board. The Secretary shall be the custodian of the records and the corporate seal or seals of the Corporation and shall cause the corporate seal to be affixed to all documents, the execution of which, on behalf of the Corporation, under its seal, is duly authorized and when so affixed may attest to same. The Secretary may sign, with the Chief Executive Officer or with the President, certificates of stock of the Corporation.

H. Controller. The Controller shall act under the direction of the Chief Financial Officer of the Corporation, or, if none, the Chief Executive Officer. Subject to the direction of the Chief Financial Officer of the Corporation or, if none, the Chairman of the Board, the Controller shall have charge of the accounting records of the Corporation, shall keep full and accurate accounts of all receipts and disbursements in books belonging to the Corporation, shall maintain adequate internal control of the Corporation's accounts, and may perform such other duties as may be prescribed by the Chief Financial Officer of the Corporation or, if none, the Chief Executive Officer, and by the Board.

ARTICLE IV - NOTES, LOAN AGREEMENTS,  
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CHECKS, BANK ACCOUNTS, ETC.  
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Section 1. Execution of Documents.  
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The Board shall from time to time by resolution authorize the officers, employees and agents of the Corporation to execute and deliver checks and other orders for the payment of money and notes, bonds and other securities, together with mortgages, loan agreements and other instruments securing or relating thereto and other contracts and commitments for and in the name of the Corporation and may authorize such officers, employees and agents to delegate such power (including authority to redelegate) by written instrument to other officers, employees or agents of the Corporation.

Section 2. Deposits.

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All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation or otherwise as the Board or any officer of the Corporation to whom power in that respect shall have been delegated by the Board shall select.

ARTICLE V - INDEMNIFICATION

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Section 1. Indemnification of Directors and Officers.

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A. Every person who is or was a Director or officer of the Corporation, or of any other corporation or entity which such person served as such at the request of the Corporation shall in accordance with Section 2 of this Article V be indemnified by the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any claim, action, suit or proceeding (other than any claim, action, suit or proceeding brought by or in the right of the Corporation), civil or criminal, administrative or investigative, or in connection with an appeal relating thereto, in which such person may be involved, as a party or otherwise, by reason of such person being or having been a Director or officer of the Corporation or such other corporation or entity, or by reason of any action taken or not taken in such capacity as such Director or officer, whether or not such person continues to be such at the time such liability or expense shall have been incurred, provided that such person acted, in good faith, and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe that such conduct was unlawful. The termination of any claim, action, suit or proceeding, civil or criminal, by judgment, order, settlement (whether with or without court approval), conviction or upon a plea of guilty or nolo contendere, or its equivalent shall not create a presumption that a Director or officer did not meet the standards of conduct set forth in this Section 1.A.

B. Every person who is or was a Director or officer of the Corporation, or of any other corporation or entity which such person served as such at the request of the Corporation, shall in accordance with Section 2 of Article V be indemnified by the Corporation against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of any claim, action, suit or proceeding brought by or in the right of the Corporation, or in connection with an appeal or otherwise, by reason of such person being or having been a Director or officer of the Corporation or such other corporation or entity, or by reason of any action taken or not taken in such person's capacity as such Director or officer, whether or not such person continues to be such at the time such expense shall have been incurred, provided that such person acted in good faith, and in a manner such person reasonably believed to be the best interests of the Corporation, and provided further,

that no indemnification shall be made in respect of any claim, action, suit or proceeding as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the court in which such claim, action, suit or proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

Section 2. Right to Indemnification.  
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Every person referred to in Section 1 or Section 2 of this Article V who has been wholly successful, on the merits or otherwise, with respect to any claim, action, suit or proceeding of the character described in said Sections shall be entitled to indemnification as of right. Except as provided in the preceding sentence, any indemnification under Section 1 or Section 2 of this Article V may be made by the Board of Directors, in its discretion, but only if (a) the Board of Directors, acting by a quorum consisting of Directors who are not parties to such claim, action, suit or proceeding, shall have found that the Director or officer has met the applicable standard of conduct set forth in Section 1 or Section 2, as the case may be, of this Article V or (b) there be no such disinterested quorum, independent legal counsel (who may be the regular outside counsel of the Corporation) shall have delivered to the Corporation written advice to the effect that in their judgment such applicable standard has been met, or (c) by the stockholders of the Corporation.

Section 3. Expenses.  
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Expenses incurred with respect to any claim, action, suit or proceeding of the character described in Section 1 of this Article V may be paid by the Corporation prior to the final disposition thereof upon receipt of an undertaking by or on behalf of the Director or officer to repay such amount unless it shall ultimately be determined that such person is entitled to indemnification by the Corporation.

Section 4. Other Rights.  
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The rights of indemnification provided in this Article V shall be in addition to any other rights to which a Director or officer of the Corporation or such other corporation or entity may otherwise be entitled by contract, vote of disinterested stockholders or Directors or otherwise or as a matter of law; and in the event of such person's death, such rights shall extend to such person's heirs and legal representatives.

ARTICLE VI - SHARES AND THEIR TRANSFER

Section 1. Certificates for Shares.

The stock of the Corporation shall be represented by certificates signed in the name of the Corporation by (a) either the Chairman of the Board of Directors or the President or a Vice President and (b) either the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation.

If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, or in any act amending, supplementing or substituted for such Section, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Any of or all the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed.

Section 2. Transfer.

Upon surrender to the Corporation or its transfer agent of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.



Section 3. Record.

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The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII - THIRD PARTIES

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Any party dealing with the Corporation shall be entitled to rely conclusively as to the due authorization of any act of the Corporation upon a certificate provided to it and signed by (a) the President or any Vice President and (b) the Secretary or any Assistant Secretary to the effect that such act was duly authorized by all necessary action of the Corporation.

ARTICLE VIII - SEAL

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The Board of Directors may by resolution provide for a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary.

ARTICLE IX - FISCAL YEAR

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The fiscal year of the Corporation shall end on the last calendar day of each year.

ARTICLE X - AMENDMENTS

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Subject to the provisions of Article II, these Bylaws may be adopted, repealed, altered or amended by the Board of Directors at any regular or special meeting thereof. Except as otherwise fixed pursuant to the provisions of the Certificate of Incorporation hereof relating to the voting rights of the holders of any class or series of Preferred Stock, the stockholders of the Corporation shall have the power to adopt, repeal, alter or amend Article II of these Bylaws by the affirmative vote of not less than two-thirds of the shares of the Common Stock voting thereon.

ARTICLE XI - NOTICES

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All notices and other communications hereunder shall be in writing and delivered personally or sent, if in the United States by first class mail return receipt requested, or if outside the United States by air mail, return receipt requested, or in either case by

telex, telecopy, or other facsimile telecommunications. Any notice or other communication so transmitted shall be deemed to have been given at the time of delivery, in the case of a communication delivered personally, on the business day following receipt of answer back, telecopy, or facsimile confirmation, in the case of a communication sent by telex, telecopy or other facsimile telecommunication, respectively, or as provided in Section 3 of Article I of these Bylaws in the case of a communication sent by mail.

ARTICLE XII - COMPUTATION OF TIME PERIODS  
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The words "day" or "days" as used in these Bylaws with respect to the computation of periods of time shall mean calendar days and the words "business day" or "business days" as used in these Bylaws with respect to the computation of periods of time shall mean any day that is not a Saturday, Sunday or other holiday in New York, New York; provided, however, that if the last day of any period of time shall fall on a day other than a business day, such period shall be extended to include the next succeeding business day in each such location. All computations of time shall be based on New York, New York time.



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3-MOS		
	DEC-31-2000	
	MAR-31-2000	
		3,088
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	169,508	
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	63,573	
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(15,027)		
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	(15,027)	
		(.39)
		(.39)