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

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 September 30, 2009
- 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: 333-107569-03

Arch Western Resources, LLC

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

43-1811130
(I.R.S. Employer
Identification Number)

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

63141
(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

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

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

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

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

At November 13, 2009, the registrant's common equity consisted solely of undenominated membership interests, 99.5% of which were held by Arch Western Acquisition Corporation and 0.5% of which were held by a subsidiary of BP p.l.c.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

Arch Western Resources, LLC and Subsidiaries
Condensed Consolidated Statements of Income
(In thousands)

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
			(unaudited)	
Revenues				
Coal sales	\$ 390,313	\$ 440,718	\$ 1,167,369	\$ 1,337,880
Costs, expenses and other				
Cost of coal sales	323,973	363,500	1,005,640	1,059,349
Depreciation, depletion and amortization	38,368	37,243	112,966	114,769
Selling, general and administrative expenses	12,654	5,391	29,722	22,281
Other operating income, net	(3,492)	(1,048)	(5,363)	(3,168)
	<u>371,503</u>	<u>405,086</u>	<u>1,142,965</u>	<u>1,193,231</u>
Income from operations	18,810	35,632	24,404	144,649
Interest income (expense), net:				
Interest expense	(16,915)	(15,237)	(50,264)	(48,819)
Interest income, primarily from Arch Coal, Inc.	11,318	19,065	34,684	59,064
	<u>(5,597)</u>	<u>3,828</u>	<u>(15,580)</u>	<u>10,245</u>
Net income	<u>\$ 13,213</u>	<u>\$ 39,460</u>	<u>\$ 8,824</u>	<u>\$ 154,894</u>
Net income (loss) attributable to redeemable membership interest	\$ 31	\$ 179	(11)	727
Net income attributable to non-redeemable membership interest	\$ 13,182	\$ 39,281	\$ 8,835	\$ 154,167

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

Arch Western Resources, LLC and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands)

	<u>September 30,</u> <u>2009</u> (unaudited)	<u>December 31,</u> <u>2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,242	\$ 2,851
Receivables	4,936	2,930
Inventories	151,544	133,726
Other	14,219	21,617
Total current assets	<u>173,941</u>	<u>161,124</u>
Property, plant and equipment, net	1,361,555	1,391,841
Other assets:		
Receivable from Arch Coal, Inc.	1,506,355	1,528,068
Other	14,707	24,051
Total other assets	<u>1,521,062</u>	<u>1,552,119</u>
Total assets	<u>\$ 3,056,558</u>	<u>\$ 3,105,084</u>
LIABILITIES AND MEMBERSHIP INTERESTS		
Current liabilities:		
Accounts payable	\$ 70,026	\$ 113,611
Accrued expenses	114,935	134,540
Commercial paper	43,612	65,671
Total current liabilities	<u>228,573</u>	<u>313,822</u>
Long-term debt	955,123	956,148
Asset retirement obligations	241,882	227,397
Accrued postretirement benefits other than pension	25,974	37,491
Accrued pension benefits	36,617	36,616
Accrued workers' compensation	4,261	3,681
Other noncurrent liabilities	36,319	25,551
Total liabilities	<u>1,528,749</u>	<u>1,600,706</u>
Redeemable membership interest	8,940	8,765
Non-redeemable membership interest	1,518,869	1,495,613
Total liabilities and membership interests	<u>\$ 3,056,558</u>	<u>\$ 3,105,084</u>

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

Arch Western Resources, LLC and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)

	Nine Months Ended September 30	
	2009	2008
	(unaudited)	
OPERATING ACTIVITIES		
Net income	\$ 8,824	\$ 154,894
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	112,966	114,769
Net (gain) loss on dispositions of property, plant and equipment	225	(336)
Changes in:		
Receivables	(2,006)	310
Inventories	(17,818)	18,492
Accounts payable and accrued expenses	(42,529)	3,236
Other	47,054	29,682
Cash provided by operating activities	106,716	321,047
INVESTING ACTIVITIES		
Capital expenditures	(106,766)	(230,829)
Change in receivable from Arch Coal, Inc.	21,760	(110,791)
Proceeds from dispositions of property, plant and equipment	80	378
Additions to prepaid royalties	(2,409)	(200)
Reimbursement of deposits on equipment	3,209	2,697
Cash used in investing activities	(84,126)	(338,745)
FINANCING ACTIVITIES		
Net proceeds from (repayments of) commercial paper	(22,059)	23,102
Debt financing costs	(140)	(233)
Cash provided by (used in) financing activities	(22,199)	22,869
Increase in cash and cash equivalents	391	5,171
Cash and cash equivalents, beginning of period	2,851	248
Cash and cash equivalents, end of period	<u>\$ 3,242</u>	<u>\$ 5,419</u>

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

Arch Western Resources, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Arch Western Resources, LLC and its subsidiaries and controlled entities (the "Company"). Arch Coal, Inc. ("Arch Coal") has a 99.5% common membership interest in the Company, while BP p.l.c. has a 0.5% common membership interest and a preferred membership interest in the Company. The terms of the Company's membership agreement grant a put right to BP p.l.c., where BP p.l.c. may require Arch Coal to purchase its membership interest. The terms of the agreement state that the price of the membership interest shall be determined by mutual agreement between the members. Intercompany transactions and accounts have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and U.S. Securities and Exchange Commission regulations. In the opinion of management, all adjustments, consisting of normal, recurring accruals considered necessary for a fair presentation, have been included. The Company's management evaluated the period from October 1, 2009 to November 13, 2009 for items requiring recognition or disclosure in the financial statements. These notes include disclosures of subsequent events to the extent necessary to keep the accompanying condensed consolidated financial statements from being misleading. Results of operations for the three and nine month periods ended September 30, 2009 are not necessarily indicative of results to be expected for the year ending December 31, 2009. These financial statements should be read in conjunction with the audited financial statements and related notes as of and for the year ended December 31, 2008 included in Arch Western Resources, LLC's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

2. Accounting Policies

New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has established the FASB Accounting Standards Codification™ ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the United States for financial statements of interim and annual periods ending after September 15, 2009. References to authoritative accounting principles after the effective date will reference the Codification and not the previous accounting guidance.

On January 1, 2009, the Company changed its presentation of noncontrolling interests in subsidiaries, pursuant to new guidance in the Consolidation topic of the Codification, which requires that a noncontrolling interest (previously referred to as minority interest) in a consolidated subsidiary be displayed in the consolidated balance sheet as a separate component of equity and the amount of net income attributable to the noncontrolling interest be included in consolidated net income on the face of the consolidated statement of income. A noncontrolling interest is defined in the new guidance as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent or a parent's affiliates. Arch Coal owns a 35% interest in the Company's subsidiary, Canyon Fuel Company, LLC ("Canyon Fuel"), which was previously presented as a minority interest. The change resulted in Arch Coal's interest in Canyon Fuel at December 31, 2008 of \$195.4 million, which was previously presented as a minority interest, to be reflected as part of the non-redeemable membership interest on the accompanying condensed consolidated balance sheet. The income allocable to Arch Coal's interest in Canyon Fuel was previously reported as a deduction in arriving at net income. As a result, net income in the accompanying condensed consolidated income statements is \$3.7 million and \$9.5 million higher for the three and nine months ended September 30, 2008, respectively, than was previously reported.

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3. Jacobs Ranch Acquisition

On October 1, 2009, Arch Coal acquired all of the issued and outstanding membership interests of Jacobs Ranch Holdings I LLC, the parent of the Jacobs Ranch mining operation, including approximately 352 million tons of coal reserves adjacent to the Company's Black Thunder mining complex. Arch Coal then contributed the acquired employees, inventories and supply parts, equipment and other personal property to the Company.

4. Inventories

Inventories consist of the following:

	September 30, 2009	December 31, 2008
	(In thousands)	
Coal	\$ 41,409	\$ 26,989
Repair parts and supplies, net of allowance	110,135	106,737
	<u>\$ 151,544</u>	<u>\$ 133,726</u>

5. Debt

Economic conditions have impacted the Company's ability to issue commercial paper up to the \$100.0 million maximum aggregate principal amount of the program. The commercial paper placement program is supported by a line of credit that expires on April 30, 2010.

At September 30, 2009 and December 31, 2008, the fair value of the Company's debt, including amounts classified as current, was \$978.2 million and \$887.4 million, respectively.

6. Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income items are transactions recorded in membership interests during the year, excluding net income and transactions with members.

The following table details the components of comprehensive income:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	(In thousands)			
Net income	\$ 13,213	\$ 39,460	\$ 8,824	\$ 154,894
Other comprehensive income:				
Pension, postretirement and other post-employment benefits, net of adjustments reclassified to income	14,387	(318)	14,680	(158)
Total comprehensive income	<u>\$ 27,600</u>	<u>\$ 39,142</u>	<u>\$ 23,504</u>	<u>\$ 154,736</u>

7. Related Party Transactions

Transactions with Arch Coal may not be at arms length. If the transactions were negotiated with an unrelated party, the impact could be material to the Company's results of operations.

The Company's cash transactions are managed by Arch Coal. Cash paid to or from the Company that is not considered a distribution or a contribution is recorded in an Arch Coal receivable account. In addition, any amounts owed between the Company and Arch Coal are recorded in the account. At both September 30, 2009 and December 31, 2008, the receivable from Arch Coal was approximately \$1.5 billion. This amount earns interest from Arch Coal at the prime interest rate. Interest earned on the note was \$11.3 million and \$19.0 million for the three months ended September 30, 2009 and 2008, respectively, and \$34.6 million and \$58.9 million for the nine months ended September 30, 2009 and 2008, respectively. The receivable is payable on demand by the Company; however, it is currently management's intention to not demand payment of the receivable within the next year. Therefore, the receivable is classified on the accompanying condensed consolidated balance sheets as noncurrent.

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The Company is a party to Arch Coal's accounts receivable securitization program. Under the program, the Company sells its receivables to Arch Coal without recourse at a discount based on the prime interest rate and days sales outstanding. During the three months ended September 30, 2009 and 2008, the Company sold \$315.8 million and \$420.1 million, respectively, of trade accounts receivable to Arch Coal at a total discount of \$0.7 million and \$1.6 million, respectively. During the nine months ended September 30, 2009 and 2008, the Company sold \$1.0 billion and \$1.3 billion, respectively, of trade accounts receivable to Arch Coal at a total discount of \$2.5 million and \$5.8 million, respectively. These transactions are recorded through the Arch Coal receivable account.

For the three month periods ended September 30, 2009 and 2008, the Company incurred production royalties of \$10.1 million and \$8.7 million, respectively, payable to Arch Coal under sublease agreements. For the nine month periods ended September 30, 2009 and 2008, the Company incurred production royalties of \$31.3 million and \$26.5 million, respectively, payable to Arch Coal under sublease agreements.

The Company is charged selling, general and administrative services fees by Arch Coal. Expenses are allocated based on Arch Coal's best estimates of proportional or incremental costs, whichever is more representative of costs incurred by Arch Coal on behalf of the Company. Amounts charged to the Company by Arch Coal were \$12.7 million and \$5.4 million for the three months ended September 30, 2009 and 2008, respectively, and \$29.7 million and \$22.3 million for the nine months ended September 30, 2009 and 2008, respectively. The intercompany charge for the three months ended September 30, 2009 includes costs incurred by Arch Coal during the nine months ended September 30, 2009 related to the acquisition of the Jacobs Ranch mining operation. The charge for these costs was concurrent with the antitrust clearance received from the Federal Trade Commission in the third quarter of 2009.

8. Contingencies

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

9. Segment Information

The Company has two reportable business segments, which are based on the major low-sulfur coal basins in which the Company operates. Both of these reportable business segments include a number of mine complexes. The Company manages its coal sales by coal basin, not by individual mine complex. Geology, coal transportation routes to customers, regulatory environments and coal quality are generally consistent within a basin. Accordingly, market and contract pricing have developed by coal basin. Mine operations are evaluated based on their per-ton operating costs (defined as including all mining costs but excluding pass-through transportation expenses), as well as on other non-financial measures, such as safety and environmental performance. The Company's reportable segments are the Powder River Basin (PRB) segment, with operations in Wyoming, and the Western Bituminous (WBIT) segment, with operations in Utah, Colorado and southern Wyoming.

Operating segment results for the three and nine month periods ended September 30, 2009 and 2008 are presented below. Results for the operating segments include all direct costs of mining. Corporate, Other and Eliminations includes corporate overhead, other support functions, and the elimination of intercompany transactions.

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	<u>PRB</u>	<u>WBIT</u>	<u>Corporate, Other and Eliminations</u>	<u>Consolidated</u>
	(In thousands)			
Three months ended September 30, 2009				
Coal sales	\$ 242,022	\$ 148,291	\$ —	\$ 390,313
Income (loss) from operations	11,112	17,083	(9,385)	18,810
Depreciation, depletion and amortization	17,512	20,856	—	38,368
Capital expenditures	7,518	13,871	—	21,389
Three months ended September 30, 2008				
Coal sales	\$ 280,365	\$ 160,353	\$ —	\$ 440,718
Income (loss) from operations	16,254	22,788	(3,410)	35,632
Depreciation, depletion and amortization	19,132	18,111	—	37,243
Capital expenditures	29,432	30,017	—	59,449
Nine months ended September 30, 2009				
Coal sales	\$ 786,117	\$ 381,252	\$ —	\$1,167,369
Income (loss) from operations	45,834	5,781	(27,211)	24,404
Total assets	1,896,245	2,074,321	(914,008)	3,056,558
Depreciation, depletion and amortization	54,257	58,709	—	112,966
Capital expenditures	49,389	57,377	—	106,766
Nine months ended September 30, 2008				
Coal sales	\$ 824,621	\$ 513,259	\$ —	\$1,337,880
Income (loss) from operations	65,303	101,391	(22,045)	144,649
Total assets	1,798,793	2,049,686	(783,479)	3,065,000
Depreciation, depletion and amortization	55,481	59,288	—	114,769
Capital expenditures	105,994	124,835	—	230,829

A reconciliation of segment income from operations to consolidated net income follows:

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In thousands)			
Income from operations	\$ 18,810	\$ 35,632	\$ 24,404	\$ 144,649
Interest expense	(16,915)	(15,237)	(50,264)	(48,819)
Interest income	11,318	19,065	34,684	59,064
Net income	<u>\$ 13,213</u>	<u>\$ 39,460</u>	<u>\$ 8,824</u>	<u>\$ 154,894</u>

10. Supplemental Condensed Consolidating Financial Information

Pursuant to the indenture governing the Arch Western Finance senior notes, certain wholly-owned subsidiaries of the Company have fully and unconditionally guaranteed the senior notes on a joint and several basis. The following tables present unaudited condensed consolidating financial information for (i) the Company, (ii) the issuer of the senior notes (Arch Western Finance, LLC, a wholly-owned subsidiary of the Company), (iii) the Company's wholly-owned subsidiaries (Thunder Basin Coal Company, L.L.C., Mountain Coal Company, L.L.C., and Arch of Wyoming, LLC), on a combined basis, which are guarantors under the Notes, and (iv) its majority owned subsidiary (Canyon Fuel Company, LLC) which is not a guarantor under the Notes:

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Three Months Ended September 30, 2009
(in thousands)

	<u>Parent Company</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Coal sales	\$ —	\$ —	\$ 272,170	\$ 118,143	\$ —	\$ 390,313
Cost of coal sales	(220)	—	242,086	82,508	(401)	323,973
Depreciation, depletion and amortization	—	—	23,355	15,013	—	38,368
Selling, general and administrative expenses	12,654	—	—	—	—	12,654
Other operating income, net	(3,049)	—	(440)	(404)	401	(3,492)
	<u>9,385</u>	<u>—</u>	<u>265,001</u>	<u>97,117</u>	<u>—</u>	<u>371,503</u>
Income from investment in subsidiaries	28,064	—	—	—	(28,064)	—
Income from operations	18,679	—	7,169	21,026	(28,064)	18,810
Interest expense	(16,745)	(15,940)	1	(262)	16,031	(16,915)
Interest income	11,279	16,031	1	38	(16,031)	11,318
	<u>(5,466)</u>	<u>91</u>	<u>2</u>	<u>(224)</u>	<u>—</u>	<u>(5,597)</u>
Net income	<u>\$ 13,213</u>	<u>\$ 91</u>	<u>\$ 7,171</u>	<u>\$ 20,802</u>	<u>\$ (28,064)</u>	<u>\$ 13,213</u>

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Three Months Ended September 30, 2008
(in thousands)

	<u>Parent Company</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Coal sales	\$ —	\$ —	\$ 323,277	\$ 117,441	\$ —	\$ 440,718
Cost of coal sales	(1,744)	—	274,979	90,965	(700)	363,500
Depreciation, depletion and amortization	—	—	22,270	14,973	—	37,243
Selling, general and administrative expenses	5,391	—	—	—	—	5,391
Other operating income, net	(237)	—	(431)	(1,080)	700	(1,048)
	<u>3,410</u>	<u>—</u>	<u>296,818</u>	<u>104,858</u>	<u>—</u>	<u>405,086</u>
Income from investment in subsidiaries	42,187	—	—	—	(42,187)	—
Income from operations	38,777	—	26,459	12,583	(42,187)	35,632
Interest expense	(18,069)	(12,616)	(117)	(466)	16,031	(15,237)
Interest income	18,752	16,031	54	259	(16,031)	19,065
	<u>683</u>	<u>3,415</u>	<u>(63)</u>	<u>(207)</u>	<u>—</u>	<u>3,828</u>
Net income	<u>\$ 39,460</u>	<u>\$ 3,415</u>	<u>\$ 26,396</u>	<u>\$ 12,376</u>	<u>\$ (42,187)</u>	<u>\$ 39,460</u>

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Nine Months Ended September 30, 2009
(in thousands)

	<u>Parent Company</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Coal sales	\$ —	\$ —	\$ 881,317	\$ 286,052	\$ —	\$ 1,167,369
Cost of coal sales	644	—	789,371	217,493	(1,868)	1,005,640
Depreciation, depletion and amortization	—	—	72,332	40,634	—	112,966
Selling, general and administrative expenses	29,722	—	—	—	—	29,722
Other operating income, net	(3,181)	—	(1,652)	(2,398)	1,868	(5,363)
	<u>27,185</u>	<u>—</u>	<u>860,051</u>	<u>255,729</u>	<u>—</u>	<u>1,142,965</u>
Income from investment in subsidiaries	52,203	—	—	—	(52,203)	—
Income from operations	25,018	—	21,266	30,323	(52,203)	24,404
Interest expense	(50,647)	(47,977)	983	(717)	48,094	(50,264)
Interest income	34,453	48,094	30	201	(48,094)	34,684
	<u>(16,194)</u>	<u>117</u>	<u>1,013</u>	<u>(516)</u>	<u>—</u>	<u>(15,580)</u>
Net income	<u>\$ 8,824</u>	<u>\$ 117</u>	<u>\$ 22,279</u>	<u>\$ 29,807</u>	<u>\$ (52,203)</u>	<u>\$ 8,824</u>

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Nine Months Ended September 30, 2008
(in thousands)

	<u>Parent Company</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Coal sales	\$ —	\$ —	\$ 1,015,659	\$ 322,221	\$ —	\$ 1,337,880
Cost of coal sales	78	—	813,546	247,547	(1,822)	1,059,349
Depreciation, depletion and amortization	—	—	68,439	46,330	—	114,769
Selling, general and administrative expenses	22,281	—	—	—	—	22,281
Other operating income, net	(314)	—	(2,095)	(2,581)	1,822	(3,168)
	<u>22,045</u>	<u>—</u>	<u>879,890</u>	<u>291,296</u>	<u>—</u>	<u>1,193,231</u>
Income from investment in subsidiaries	174,019	—	—	—	(174,019)	—
Income from operations	151,974	—	135,769	30,925	(174,019)	144,649
Interest expense	(55,141)	(40,027)	(393)	(1,352)	48,094	(48,819)
Interest income	58,061	48,094	196	807	(48,094)	59,064
	<u>2,920</u>	<u>8,067</u>	<u>(197)</u>	<u>(545)</u>	<u>—</u>	<u>10,245</u>
Net income	<u>\$ 154,894</u>	<u>\$ 8,067</u>	<u>\$ 135,572</u>	<u>\$ 30,380</u>	<u>\$ (174,019)</u>	<u>\$ 154,894</u>

CONDENSED CONSOLIDATING BALANCE SHEETS
September 30, 2009
(in thousands)

	<u>Parent Company</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash and cash equivalents	\$ 3,164	\$ —	\$ 59	\$ 19	\$ —	\$ 3,242
Receivables	2,350	—	2,149	437	—	4,936
Inventories	—	—	114,648	36,896	—	151,544
Other	2,672	2,157	3,080	6,310	—	14,219
Total current assets	8,186	2,157	119,936	43,662	—	173,941
Property, plant and equipment, net	—	—	1,055,816	305,739	—	1,361,555
Investment in subsidiaries	2,417,020	—	—	—	(2,417,020)	—
Receivable from Arch Coal	1,473,876	—	—	32,479	—	1,506,355
Intercompanies	(2,304,197)	977,714	1,125,165	201,318	—	—
Other	1,626	5,862	2,669	4,550	—	14,707
Total other assets	1,588,325	983,576	1,127,834	238,347	(2,417,020)	1,521,062
Total assets	\$ 1,596,511	\$ 985,733	\$ 2,303,586	\$ 587,748	\$ (2,417,020)	\$ 3,056,558
Accounts payable	\$ 6,285	\$ —	\$ 49,720	\$ 14,021	\$ —	\$ 70,026
Accrued expenses	1,426	16,031	84,404	13,074	—	114,935
Commercial paper	43,612	—	—	—	—	43,612
Total current liabilities	51,323	16,031	134,124	27,095	—	228,573
Long-term debt	—	955,123	—	—	—	955,123
Asset retirement obligations	—	—	228,011	13,871	—	241,882
Accrued postretirement benefits other than pension	6,289	—	12,117	7,568	—	25,974
Accrued pension benefits	10,674	—	20,247	5,696	—	36,617
Accrued workers' compensation	(1,334)	—	1,357	4,238	—	4,261
Other noncurrent liabilities	1,750	—	34,544	25	—	36,319
Total liabilities	68,702	971,154	430,400	58,493	—	1,528,749
Redeemable membership interest	8,940	—	—	—	—	8,940
Non-redeemable membership interest	1,518,869	14,579	1,873,186	529,255	(2,417,020)	1,518,869
Total liabilities and membership interests	\$ 1,596,511	\$ 985,733	\$ 2,303,586	\$ 587,748	\$ (2,417,020)	\$ 3,056,558

CONDENSED CONSOLIDATING BALANCE SHEETS
December 31, 2008
(in thousands)

	<u>Parent Company</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash and cash equivalents	\$ 2,690	\$ —	\$ 84	\$ 77	\$ —	\$ 2,851
Receivables	1,250	—	1,138	542	—	2,930
Inventories	—	—	102,216	31,510	—	133,726
Other	10,330	2,154	4,669	4,464	—	21,617
Total current assets	<u>14,270</u>	<u>2,154</u>	<u>108,107</u>	<u>36,593</u>	<u>—</u>	<u>161,124</u>
Property, plant and equipment, net	—	—	1,065,064	326,777	—	1,391,841
Investment in subsidiaries	2,362,717	—	—	—	(2,362,717)	—
Receivable from Arch Coal	1,498,201	—	—	29,867	—	1,528,068
Intercompanies	(2,238,175)	993,048	1,090,674	154,453	—	—
Other	700	7,471	11,474	4,406	—	24,051
Total other assets	<u>1,623,443</u>	<u>1,000,519</u>	<u>1,102,148</u>	<u>188,726</u>	<u>(2,362,717)</u>	<u>1,552,119</u>
Total assets	<u>\$ 1,637,713</u>	<u>\$ 1,002,673</u>	<u>\$ 2,275,319</u>	<u>\$ 552,096</u>	<u>\$ (2,362,717)</u>	<u>\$ 3,105,084</u>
Accounts payable	\$ 7,167	\$ —	\$ 88,938	\$ 17,506	\$ —	\$ 113,611
Accrued expenses	4,293	32,063	90,605	7,579	—	134,540
Commercial paper	65,671	—	—	—	—	65,671
Total current liabilities	<u>77,131</u>	<u>32,063</u>	<u>179,543</u>	<u>25,085</u>	<u>—</u>	<u>313,822</u>
Long-term debt	—	956,148	—	—	—	956,148
Asset retirement obligations	—	—	214,388	13,009	—	227,397
Accrued postretirement benefits other than pension	23,492	—	2,485	11,514	—	37,491
Accrued pension benefits	32,671	—	—	3,945	—	36,616
Accrued workers' compensation	(1,045)	—	642	4,084	—	3,681
Other noncurrent liabilities	1,086	—	24,465	—	—	25,551
Total liabilities	<u>133,335</u>	<u>988,211</u>	<u>421,523</u>	<u>57,637</u>	<u>—</u>	<u>1,600,706</u>
Redeemable membership interest	8,765	—	—	—	—	8,765
Non-redeemable membership interest	1,495,613	14,462	1,853,796	494,459	(2,362,717)	1,495,613
Total liabilities and membership interests	<u>\$ 1,637,713</u>	<u>\$ 1,002,673</u>	<u>\$ 2,275,319</u>	<u>\$ 552,096</u>	<u>\$ (2,362,717)</u>	<u>\$ 3,105,084</u>

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2009
(in thousands)

	<u>Parent Company</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
Cash provided by (used in) operating activities	\$ (67,736)	\$ (15,319)	\$ 120,076	\$ 69,695	\$ 106,716
Investing Activities					
Capital expenditures	—	—	(86,665)	(20,101)	(106,766)
Change in receivable from Arch Coal	24,372	—	—	(2,612)	21,760
Proceeds from dispositions of property, plant and equipment	—	—	55	25	80
Additions to prepaid royalties	—	—	(2,209)	(200)	(2,409)
Reimbursement of deposits on equipment	—	—	3,209	—	3,209
Cash provided by (used in) investing activities	24,372	—	(85,610)	(22,888)	(84,126)
Financing Activities					
Net payments on commercial paper	(22,059)	—	—	—	(22,059)
Debt financing costs	(125)	(15)	—	—	(140)
Transactions with affiliates, net	66,022	15,334	(34,491)	(46,865)	—
Cash provided by (used in) financing activities	43,838	15,319	(34,491)	(46,865)	(22,199)
Increase (decrease) in cash and cash equivalents	474	—	(25)	(58)	391
Cash and cash equivalents, beginning of period	2,690	—	84	77	2,851
Cash and cash equivalents, end of period	<u>\$ 3,164</u>	<u>\$ —</u>	<u>\$ 59</u>	<u>\$ 19</u>	<u>\$ 3,242</u>

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2008
(in thousands)

	<u>Parent Company</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
Cash provided by (used in) operating activities	\$ (19,582)	\$ (7,369)	\$ 140,658	\$ 207,340	\$ 321,047
Investing Activities					
Capital expenditures	—	—	(105,994)	(124,835)	(230,829)
Increase in receivable from Arch Coal	(102,825)	—	(112)	(7,854)	(110,791)
Proceeds from dispositions of property, plant and equipment	—	—	355	23	378
Additions to prepaid royalties	—	—	—	(200)	(200)
Reimbursement of deposits on equipment	—	—	2,697	—	2,697
Cash provided by (used in) investing activities	(102,825)	—	(103,054)	(132,866)	(338,745)
Financing Activities					
Net proceeds from commercial paper	23,102	—	—	—	23,102
Debt financing costs	(219)	(14)	—	—	(233)
Transactions with affiliates, net	104,773	7,383	(37,594)	(74,562)	—
Cash provided by (used in) financing activities	127,656	7,369	(37,594)	(74,562)	22,869
Increase (decrease) in cash and cash equivalents	5,249	—	10	(88)	5,171
Cash and cash equivalents, beginning of period	78	—	16	154	248
Cash and cash equivalents, end of period	<u>\$ 5,327</u>	<u>\$ —</u>	<u>\$ 26</u>	<u>\$ 66</u>	<u>\$ 5,419</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This document contains "forward-looking statements" — that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance, and often contain words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," or "will." Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties arise from changes in the demand for our coal by the domestic electric generation industry; from legislation and regulations relating to the Clean Air Act and other environmental initiatives; from operational, geological, permit, labor and weather-related factors; from fluctuations in the amount of cash we generate from operations; from future integration of acquired businesses; and from numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive or regulatory nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law. For a description of some of the risks and uncertainties that may affect our future results, see "Risk Factors" under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008 and in the Quarterly Reports on Form 10-Q that we have filed during interim periods.

Overview

We are a subsidiary of Arch Coal, Inc., one of the largest coal producers in the United States. Our two reportable business segments are based on the low-sulfur U.S. coal producing regions in which we operate — the Powder River Basin and the Western Bituminous region. These geographically distinct areas are characterized by geology, coal transportation routes to consumers, regulatory environments and coal quality. These regional similarities have caused market and contract pricing environments to develop by coal region and form the basis for the segmentation of our operations.

The Powder River Basin is located in northeastern Wyoming and southeastern Montana. The coal we mine from surface operations in this region has a very low sulfur content and a low heat value compared to the other region in which we operate. The price of Powder River Basin coal is generally less than that of coal produced in other regions because Powder River Basin coal exists in greater abundance, is easier to mine and thus has a lower cost of production. In addition, Powder River Basin coal is generally lower in heat content, which requires some electric power generation facilities to blend it with higher Btu coal or retrofit some existing coal plants to accommodate lower Btu coal. The Western Bituminous region includes western Colorado, eastern Utah and southern Wyoming. Coal we mine from underground and surface mines in this region typically has a low sulfur content and varies in heat content.

We estimate that 2009 year-to-date U.S. power generation has declined approximately 4% through the third week of October in response to weak domestic and international economic conditions, as well as an unseasonably mild summer in most of the U.S. U.S. coal consumption has declined significantly, primarily as a result of weak industrial demand in geographic regions that traditionally rely more heavily on coal-fueled electricity generation. As a result of these market pressures, coupled with continued geological challenges in certain regions, cost pressures, regulatory hurdles and limited access to capital, coal production and capital spending across the domestic coal industry have been curtailed. While coal demand in Asia has begun to rebound, which we expect will eventually fuel increasing demand in the U.S., we do not expect near-term improvements in domestic coal demand due to high inventory levels at coal-fueled power generators.

In response to weakened demand caused by challenging domestic and international economic conditions, we have curtailed production in both operating regions. In the Powder River Basin, we idled a second dragline and associated equipment in the second quarter of 2009. In the Western Bituminous region, we reduced production at our West Elk mine in response to declining demand from power generation and industrial customers for Western Bituminous coal and elevated levels of lower-quality, mid-ash coal currently being produced at the mine resulting from intermittent sandstone intrusions. As a result of the curtailment, we laid off 61 employees and discontinued the use of 38 contractors in the second quarter of 2009.

On October 1, 2009, Arch Coal consummated the previously announced purchase of the Jacobs Ranch mining operations, for a purchase price of \$764.0 million, including approximately 352 million tons of coal reserves located adjacent to our Black Thunder mining complex. Arch Coal then contributed the acquired employees, inventories

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and supply parts, equipment and other personal property to us, which we expect to merge with our Black Thunder mining operations. We expect to achieve significant operating efficiencies by combining the two operations. Roughly one half of our estimated synergies represent operational cost savings, while others relate to administrative cost reductions as well as enhanced coal-blending optimization opportunities. We also plan to use one of the idled Black Thunder draglines on the new property, subject to permit approval.

Results of Operations

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

Summary. Our results during the third quarter of 2009 when compared to the third quarter of 2008 were influenced primarily by lower sales volumes due to weak market.

Revenues. The following table summarizes information about coal sales during the three months ended September 30, 2009 and compares it with the information for the three months ended September 30, 2008:

	<u>Three Months Ended September 30</u>		<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>%</u>
	(Amounts in thousands, except per ton data and percentages)			
Coal sales	\$390,313	\$440,718	\$(50,405)	(11.4)%
Tons sold	24,703	30,765	(6,062)	(19.7)%
Coal sales realization per ton sold	\$ 15.80	\$ 14.33	\$ 1.47	10.3%

Coal sales decreased in the third quarter of 2009 from the third quarter of 2008 due to lower sales volumes in both operating segments, partially offset by the impact of higher per-ton coal sales realizations in both segments. We have provided more information about the tons sold and the coal sales realizations per ton by operating segment under the heading "Operating segment results" on page 18.

Costs, expenses and other. The following table summarizes costs, expenses and other components of operating income for the three months ended September 30, 2009 and compares them with the information for the three months ended September 30, 2008:

	<u>Three Months Ended September 30</u>		<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>\$</u>	<u>%</u>
	(Amounts in thousands, except percentages)			
Cost of coal sales	\$ 323,973	\$ 363,500	\$ 39,527	10.9%
Depreciation, depletion and amortization	38,368	37,243	(1,125)	(3.0)
Selling, general and administrative expenses	12,654	5,391	(7,263)	(134.7)
Other operating income, net	(3,492)	(1,048)	2,444	233.2
	<u>\$ 371,503</u>	<u>\$ 405,086</u>	<u>\$ 33,583</u>	<u>8.3%</u>

Cost of coal sales. Our cost of coal sales decreased in the third quarter of 2009 from the third quarter of 2008 due primarily to the lower sales volumes in both operating segments. We have provided more information about our operating segments' sales and profitability under the heading "Operating segment results" on page 18.

Depreciation, depletion and amortization. When compared with the third quarter of 2008, slightly higher depreciation and amortization costs in the third quarter of 2009 resulted primarily from the amortization of development costs related to the new seam at the West Elk mine where we commenced longwall production in the fourth quarter of 2008, partially offset by the impact of lower volume levels on depletion and amortization costs calculated on a units-of-production method.

Selling, general and administrative expenses. Selling, general and administrative expenses represent expenses allocated to us from Arch Coal. Expenses are allocated based on Arch Coal's best estimates of proportional or incremental costs, whichever is more representative of costs incurred by Arch Coal on our behalf. Costs charged during the three months ended September 30, 2009 include Arch Coal's year-to-date costs related to the acquisition of the Jacobs Ranch mining complex. The charge was concurrent with the antitrust clearance received from the Federal Trade Commission in the third quarter of 2009.

Other operating income, net. When compared with the third quarter of 2008, higher other net operating income in the third quarter of 2009 was the primarily the result of income from contract settlements.

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Operating segment results. The following table shows results by operating segment for the three months ended September 30, 2009 and compares it with information for the three months ended September 30, 2008:

	Three Months Ended September 30		Increase (Decrease)	
	2009	2008	\$	%
<i>Powder River Basin</i>				
Tons sold (in thousands)	20,142	25,658	(5,516)	(21.5)%
Coal sales realization per ton sold (1)	\$ 11.84	\$ 10.91	\$ 0.93	8.5%
Operating margin per ton sold (2)	\$ 0.53	\$ 0.61	\$ (0.08)	(13.1)%
<i>Western Bituminous</i>				
Tons sold (in thousands)	4,561	5,107	(546)	(10.7)%
Coal sales realization per ton sold (1)	\$ 29.07	\$ 26.80	\$ 2.27	8.5%
Operating margin per ton sold (2)	\$ 3.66	\$ 4.27	\$ (0.61)	(14.3)%

- (1) Coal sales prices per ton exclude certain transportation costs that we pass through to our customers. We use these financial measures because we believe the amounts as adjusted better represent the coal sales prices we achieved within our operating segments. Since other companies may calculate coal sales prices per ton differently, our calculation may not be comparable to similarly titled measures used by those companies. For the three months ended September 30, 2009, transportation costs per ton were \$0.18 for the Powder River Basin and \$3.44 for the Western Bituminous region. For the three months ended September 30, 2008, transportation costs were \$0.02 for the Powder River Basin and \$4.60 for the Western Bituminous region.
- (2) Operating margin per ton sold is calculated as coal sales revenues less cost of coal sales and depreciation, depletion and amortization divided by tons sold.

Powder River Basin — The decrease in sales volume in the Powder River Basin in the third quarter of 2009 when compared with the third quarter of 2008 was due to weak market conditions. At the Black Thunder mining complex, in response to these conditions, we reduced production and idled one dragline in the fourth quarter of 2008 and another dragline in May 2009, along with the related support equipment. Increases in sales prices during the third quarter of 2009 when compared with the third quarter of 2008 primarily reflect higher pricing from contracts committed during 2008, when market conditions were more favorable, partially offset by the effect of lower pricing on market-index priced tons and the effect of lower sulfur dioxide allowance pricing. On a per-ton basis, operating margins in the third quarter of 2009 decreased from the third quarter of 2008 due to an increase in per-ton costs, which offset the contribution from higher sales prices. The increase in per-ton costs, despite our cost containment efforts, resulted primarily from the effect of spreading fixed costs over lower volume.

Western Bituminous — In the Western Bituminous region, we sold fewer tons in the third quarter of 2009 than in the third quarter of 2008 due to weak market conditions, as well as quality issues at the West Elk mining complex. We have encountered sandstone intrusions at the West Elk mining complex that have resulted in a higher ash content in the coal produced, and declining coal demand has had an impact on our efforts to market this coal. As a result of the weak market demand for this coal, we have reduced our production levels at the mine. To address any ongoing quality issues, we plan to build a preparation plant at the mine by mid-2010, with estimated capital costs of \$25 million to \$30 million. The beneficial impact of the roll-off of lower-priced legacy contracts in 2008 on our per-ton realizations was partially offset by the detrimental impact of selling coal with a higher ash content. Lower per-ton operating margins in the third quarter of 2009 were the result of the West Elk quality issues and lower production levels.

Net interest income (expense). The following table summarizes our net interest income (expense) for the three months ended September 30, 2009 and compares it with the information for the three months ended September 30, 2008:

	Three Months Ended September 30		Decrease in Net Income	
	2009	2008	\$	%
(Amounts in thousands, except percentages)				
Interest expense	\$ (16,915)	\$ (15,237)	\$ (1,678)	(11.0)%
Interest income	11,318	19,065	(7,747)	(40.6)
	<u>\$ (5,597)</u>	<u>\$ 3,828</u>	<u>\$ (9,425)</u>	<u>(246.2)%</u>

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Interest expense consists of interest on our 6.75% senior notes, the discount on trade accounts receivable sold to Arch Coal under Arch Coal's accounts receivable securitization program and interest on our commercial paper. The decrease in interest expense in the quarter ended September 30, 2009 from the quarter ended September 30, 2008 resulted from a decrease in the amount of interest costs capitalized from \$3.6 million in 2008 to \$0.3 million in 2009. Partially offsetting the decrease in capitalized interest costs was a decrease in the discount on accounts receivable sold to Arch Coal, due to lower interest rates and a decrease in total receivables sold in the third quarter of 2009 compared to the third quarter of 2008.

Our cash transactions are managed by Arch Coal. Cash paid to or from us that is not considered a distribution or a contribution is recorded as a receivable from Arch Coal. The receivable balance earns interest from Arch Coal at the prime interest rate. The decrease in interest income results primarily from a lower prime interest rate during the three months ended September 30, 2009 as compared to the three months ended September 30, 2008.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Summary. Our results during the first nine months of 2009 when compared to the first nine months of 2008 were influenced primarily by lower sales volumes due to weak market conditions.

Revenues. The following table summarizes information about coal sales during the nine months ended September 30, 2009 and compares it with the information for the nine months ended September 30, 2008:

	Nine Months Ended September 30		Increase (Decrease)	
	2009	2008	Amount	%
	(Amounts in thousands, except per ton data and percentages)			
Coal sales	\$1,167,369	\$1,337,880	\$(170,511)	(12.7)%
Tons sold	74,608	90,643	(16,035)	(17.7)%
Coal sales realization per ton sold	\$ 15.65	\$ 14.76	\$ 0.89	6.0%

Coal sales decreased in the first nine months of 2009 from the first nine months of 2008 due to lower sales volumes in both segments, partially offset by the effect of higher price realizations in both segments. We have provided more information about the tons sold and the coal sales realizations per ton by operating segment under the heading "Operating segment results" on page 20.

Costs, expenses and other. The following table summarizes costs, expenses and other components of operating income for the nine months ended September 30, 2009 and compares them with the information for the nine months ended September 30, 2008:

	Nine Months Ended September 30		Increase (Decrease) in Net Income	
	2009	2008	\$	%
	(Amounts in thousands, except percentages)			
Cost of coal sales	\$ 1,005,640	\$ 1,059,349	\$ 53,709	5.1%
Depreciation, depletion and amortization	112,966	114,769	1,803	1.6
Selling, general and administrative expenses	29,722	22,281	(7,441)	(33.4)
Other operating income, net	(5,363)	(3,168)	2,195	69.3
	<u>\$ 1,142,965</u>	<u>\$ 1,193,231</u>	<u>\$ 50,266</u>	<u>4.2%</u>

Cost of coal sales. Our cost of coal sales decreased in the first nine months of 2009 from the first nine months of 2008 due primarily to the lower sales volumes in both operating segments. We have provided more information about our operating segments' sales and profitability under the heading "Operating segment results" on page 20.

Depreciation, depletion and amortization. When compared with the nine months ended September 30, 2008, slightly lower depreciation, depletion and amortization costs in the nine months ended September 30, 2009 resulted from the impact of lower volume levels on depletion and amortization costs calculated on a units-of-production method, partially offset by the amortization of development costs related to the new seam at the West Elk mine where we commenced longwall production in the fourth quarter of 2008.

Selling, general and administrative expenses. Selling, general and administrative expenses represent expenses allocated to us from Arch Coal. Expenses are allocated based on Arch Coal's best estimates of proportional or

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incremental costs, whichever is more representative of costs incurred by Arch Coal on our behalf. Costs allocated during the nine months ended September 30, 2009 include acquisition costs related to Arch Coal's purchase of the Jacobs Ranch mining complex.

Other operating income, net. When compared with the first nine months of 2008, higher other net operating income in the first nine months of 2009 was primarily the result of income from contract settlements.

Operating segment results. The following table shows results by operating segment for the nine months ended September 30, 2009 and compares it with information for the nine months ended September 30, 2008:

	<u>Nine Months Ended September 30</u>		<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>\$</u>	<u>%</u>
<i>Powder River Basin</i>				
Tons sold (in thousands)	62,675	74,887	(12,212)	(16.3)%
Coal sales realization per ton sold ⁽³⁾	\$ 12.39	\$ 10.98	\$ 1.41	12.8%
Operating margin per ton sold ⁽⁴⁾	\$ 0.70	\$ 0.85	\$ (0.15)	(17.6)%
<i>Western Bituminous</i>				
Tons sold (in thousands)	11,933	15,756	(3,823)	(24.3)%
Coal sales realization per ton sold ⁽³⁾	\$ 29.00	\$ 27.90	\$ 1.10	3.9%
Operating margin per ton sold ⁽⁴⁾	\$ 0.28	\$ 6.26	\$ (5.98)	(95.5)%

(3) Coal sales prices per ton exclude certain transportation costs that we pass through to our customers. We use these financial measures because we believe the amounts as adjusted better represent the coal sales prices we achieved within our operating segments. Since other companies may calculate coal sales prices per ton differently, our calculation may not be comparable to similarly titled measures used by those companies. For the nine months ended September 30, 2009, transportation costs per ton were \$0.15 for the Powder River Basin and \$2.95 for the Western Bituminous region. For the nine months ended September 30, 2008, transportation costs were \$0.03 for the Powder River Basin and \$4.68 for the Western Bituminous region.

(4) Operating margin per ton sold is calculated as coal sales revenues less cost of coal sales and depreciation, depletion and amortization divided by tons sold.

Powder River Basin — The decrease in sales volume in the Powder River Basin in 2009 when compared with 2008 is due to weak market conditions. At the Black Thunder mining complex, in response to these conditions, we reduced production and idled one dragline in the fourth quarter of 2008 and another dragline in May 2009, along with the related support equipment. Increases in sales prices during 2009 when compared with 2008, primarily reflect higher pricing from contracts committed during 2008, when market conditions were more favorable, partially offset by the effect of lower pricing on market-index priced tons and the effect of lower sulfur dioxide allowance pricing. On a per-ton basis, operating margins in 2009 were lower compared to 2008 due to an increase in per-ton costs, which offset the contribution from higher sales prices. The increase in per-ton costs, despite our cost containment efforts, resulted primarily from the effect of spreading fixed costs over lower volume levels.

Western Bituminous — In the Western Bituminous region, we sold fewer tons in 2009 than in the 2008 due to the weak market conditions as well as quality issues at the West Elk mining complex. We have encountered sandstone intrusions at the West Elk mining complex that have resulted in a higher ash content in the coal produced, and declining coal demand has had an impact on our efforts to market this coal. As a result of the weak market demand for this coal, we have reduced our production levels at the mine. To address any ongoing quality issues, we plan to build a preparation plant at the mine by mid-2010, with estimated capital costs of \$25 million to \$30 million. The beneficial impact of the roll-off of lower-priced legacy contracts in 2008 on our per-ton realizations was partially offset by the detrimental impact of selling coal with a higher ash content. Lower per-ton operating margins during 2009 were the result of the West Elk quality issues and the lower production levels.

Net interest income (expense). The following table summarizes our net interest income (expense) for the nine months ended September 30, 2009 and compares it with the information for the nine months ended September 30, 2008:

	<u>Nine Months Ended September 30</u>		<u>Decrease in Net Income</u>	
	<u>2009</u>	<u>2008</u>	<u>\$</u>	<u>%</u>
	(Amounts in thousands, except percentages)			
Interest expense	\$ (50,264)	\$ (48,819)	\$ (1,445)	(3.0)%
Interest income	34,684	59,064	(24,380)	(41.3)
	<u>\$ (15,580)</u>	<u>\$ 10,245</u>	<u>\$ (25,825)</u>	<u>(252.1)%</u>

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Interest expense consists of interest on our 6.75% senior notes, the discount on trade accounts receivable sold to Arch Coal under Arch Coal's accounts receivable securitization program and interest on our commercial paper. The decrease in interest expense in the nine months ended September 30, 2009 from the nine months ended September 30, 2008 resulted from a decrease in the amount of interest costs capitalized from \$8.7 million in 2008 to \$0.7 million in 2009. Partially offsetting the decrease in capitalized interest costs was a decrease in the discount on accounts receivable sold to Arch Coal, due to lower interest rates and a decrease in total receivables sold in 2009 compared to 2008.

Our cash transactions are managed by Arch Coal. Cash paid to or from us that is not considered a distribution or a contribution is recorded as a receivable from Arch Coal. The receivable balance earns interest from Arch Coal at the prime interest rate. The decrease in interest income results primarily from a lower prime interest rate during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008.

Liquidity and Capital Resources

Credit crisis and economic environment

The crisis in domestic and international financial markets has had a significant adverse impact on a number of financial institutions. Since the beginning of the crisis, our ability to issue commercial paper up to the maximum amount allowed under the program has been constrained. The ongoing uncertainty in the financial markets may have an impact in the future on: the market values of certain securities and commodities; the financial stability of our customers and counterparties; and the cost and availability of insurance and financial surety programs, among others. At this point in time, however, our liquidity has not been materially affected. While we expect that our ability to issue commercial paper will continue to be affected by the current credit markets, we believe we have sufficient liquidity, as supported by Arch Coal's credit facilities, to satisfy working capital requirements and fund capital expenditures, if needed. Management will continue to closely monitor our liquidity, credit markets and counterparty credit risk. Management cannot predict with any certainty the impact to our liquidity of any further disruption in the credit environment.

Liquidity and capital resources

Our primary sources of cash include sales of our coal production to customers, our commercial paper program and debt related to significant transactions. Excluding any significant acquisitions, we generally satisfy our working capital requirements and fund capital expenditures and debt-service obligations with cash generated from operations and, if necessary, cash from Arch Coal. Arch Coal manages our cash transactions. Cash paid to or from us that is not considered a distribution or a contribution is recorded in an Arch Coal receivable account. The receivable balance earns interest from Arch Coal at the prime interest rate. We are also party to Arch Coal's accounts receivable securitization program. Under the program, we sell our receivables to a subsidiary of Arch Coal without recourse at a discount based on the prime rate and days sales outstanding.

We believe that cash generated from operations will be sufficient to meet working capital requirements, anticipated capital expenditures and scheduled debt payments for at least the next several years. We manage our exposure to changing commodity prices for our long-term coal contract portfolio through the use of long-term coal supply agreements. We enter into fixed price, fixed volume supply contracts with terms generally greater than one year with customers with whom we have historically had limited collection issues. Our ability to satisfy debt service obligations, to fund planned capital expenditures and to make acquisitions will depend upon our future operating performance, which will be affected by prevailing economic conditions in the coal industry and financial, business and other factors, some of which are beyond our control.

We had commercial paper outstanding of \$43.6 million at September 30, 2009 and \$65.7 million at December 31, 2008. Our commercial paper placement program provides short-term financing at rates that are generally lower than the rates available under Arch Coal's revolving credit facility. Under the program, we may sell up to \$100.0 million in interest-bearing or discounted short-term unsecured debt obligations with maturities of no more than 270 days. The commercial paper placement program is supported by a revolving credit facility that is subject to renewal annually with a maturity date of April 30, 2010. The current credit market has affected our ability to issue

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commercial paper up to the maximum amount allowed under the program, but we believe that our cash from operations is sufficient to satisfy our liquidity needs.

During the nine months ended September 30, 2009, we sold \$1.0 billion of trade accounts receivable to Arch Coal at a total discount of \$2.5 million.

Our subsidiary, Arch Western Finance LLC, has outstanding an aggregate principal amount of \$950.0 million of 6.75% senior notes due on July 1, 2013. The senior notes are guaranteed by certain of our subsidiaries and are secured by our intercompany note to Arch Coal. The indenture under which the senior notes were issued contains certain restrictive covenants that limit our ability to, among other things, incur additional debt, sell or transfer assets and make certain investments.

The following is a summary of cash provided by or used in each of the indicated types of activities:

	Nine Months Ended September 30	
	2009	2008
	(in thousands)	
Cash provided by (used in):		
Operating activities	\$106,716	\$ 321,047
Investing activities	(84,126)	(338,745)
Financing activities	(22,199)	22,869

The decrease in cash provided by operating activities in the first nine months of 2009 compared to the first nine months of 2008 was primarily the result of a decrease in our profitability in 2009 due to weak coal markets.

Cash used in investing activities for the first nine months of 2009 was \$254.6 million less than was used in investing activities for the first nine months of 2008. We spent \$106.8 million on capital expenditures during the first nine months of 2009, \$124.0 million less than we spent during the first nine months of 2008. During the first nine months of 2009, we spent approximately \$19.0 million on additional longwall equipment at the West Elk mining complex in Colorado and approximately \$38.0 million on a new shovel and haul trucks at the Black Thunder mine in Wyoming. During the first nine months of 2008, we spent approximately \$78.4 million on the construction of the loadout facility at our Black Thunder mine in Wyoming and approximately \$101.2 million for the transition to the new reserve area at our West Elk mining complex. We completed the work on the loadout facility and transitioned to the new seam at West Elk in the fourth quarter of 2008. In addition, the receivable from Arch Coal decreased approximately \$21.8 million in the first nine months of 2009 compared with a \$110.8 million increase in the first nine months of 2008.

Cash used in financing activities was \$22.2 million during the first nine months of 2009 compared to cash provided by financing activities of \$22.9 million during the first nine months of 2008, primarily the result of net payments made on commercial paper in 2009. During the first nine months of 2008, the maximum aggregate principal amount under the commercial paper program was increased from \$75.0 million to \$100.0 million, resulting in an increase in commercial paper issued. As discussed previously, the current credit market has affected our ability to issue commercial paper up to the maximum amount allowed under the program, resulting in a decrease in commercial paper issued during the nine months ended September 30, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In addition to the other quantitative and qualitative disclosures about market risk contained in this report, you should see Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2008. There have been no other material changes in our exposure to market risk since December 31, 2008.

Item 4T. Controls and Procedures.

We performed an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2009. Based on that evaluation, our management, including our chief executive officer and chief financial officer, concluded that the disclosure controls and procedures were effective as of such date. There were no changes in internal control over financial reporting that occurred during our fiscal

quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings.

We are involved in various claims and legal actions in the ordinary course of business. In the opinion of management, the outcome of such ordinary course of business proceedings and litigation currently pending will not have a material adverse effect on our results of operations or financial results.

You should see Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2008 for more information about some of the proceedings and litigation in which we are involved.

Item 1A. Risk Factors.

Our business inherently involves certain risks and uncertainties. The risks and uncertainties described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008 are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Should one or more of any of these risks materialize, our business, financial condition, results of operations or liquidity could be materially adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits filed as part of this Quarterly Report on Form 10-Q are as follows:

Exhibit	Description
3.1	Certificate of Formation (incorporated herein by reference to Exhibit 3.3 to the Form S-4 (File No. 333-107569) filed on August 1, 2003 by Arch Western Finance, LLC, Arch Western Resources, LLC, Arch of Wyoming, LLC, Mountain Coal Company, L.L.C., and Thunder Basin Coal Company, L.L.C.).
3.2	Limited Liability Company Agreement (incorporated herein by reference to Exhibit 3.4 to the Form S-4 (File No. 333-107569) filed on August 1, 2003 by Arch Western Finance, LLC, Arch Western Resources, LLC, Arch of Wyoming, LLC, Mountain Coal Company, L.L.C., and Thunder Basin Coal Company, L.L.C.).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Paul A. Lang.
31.2	Rule 13a-14(a)/15d-14(a) Certification of John T. Drexler.
32.1	Section 1350 Certification of Paul A. Lang.
32.2	Section 1350 Certification of John T. Drexler.

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 Western Resources, LLC

By: /s/ John T. Drexler

John T. Drexler
Vice President

November 13, 2009

Certification

I, Paul A. Lang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arch Western Resources, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Paul A. Lang

Paul A. Lang

President

Date: November 13, 2009

Certification

I, John T. Drexler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arch Western Resources, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John T. Drexler

John T. Drexler

Vice President

Date: November 13, 2009

Certification of Periodic Financial Reports

I, Paul A. Lang, President of Arch Western Resources, LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Arch Western Resources, LLC.

/s/ Paul A. Lang

Paul A. Lang

President

Date: November 13, 2009

Certification of Periodic Financial Reports

I, John T. Drexler, Vice President of Arch Western Resources, LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Arch Western Resources, LLC.

/s/ John T. Drexler

John T. Drexler

Vice President

Date: November 13, 2009