ALLIANCE RESOURCE PARTNERS LP
Form 10-K/A
November 25, 2002

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

FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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 NO.: 0-26823

ALLIANCE RESOURCE PARTNERS, L.P.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	73-1564280
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)

1717 SOUTH BOULDER AVENUE, SUITE 600, TULSA, OKLAHOMA 74119
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES AND ZIP CODE)

(918) 295-7600
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

Securities registered pursuant to Section 12(g) of the Act:
common units representing limited partner interests

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 [X] No [ ]

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

The aggregate value of the common units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant, for this purpose, as if they may be affiliates of the registrant) was approximately $178,670,542 on March 28, 2002, based on $24.18 per unit, the closing price of the common units as reported on the Nasdaq National Market on such date.

As of March 28, 2002, 8,982,780 common units and 6,422,531 subordinated units are outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

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This Form 10-K/A for the year ended December 31, 2001 reflects a modification for a typographical error relating to the "Pro Forma Net Income Assuming Accounting Change Is Applied Retroactively" for the year ended December 31, 2001 as presented in the Consolidated and Combined Statements of Income for the Years Ended December 31, 2001 and 2000, and the Period From the Partnership's Commencement of Operations (On August 20, 1999) to December 31, 1999, and the Predecessor Period from January 1, 1999 to August 19, 1999. Additionally, we have corrected a misclassification of 3.1 million tons of coal reserves between Mettiki and Mettiki (WV) as set forth in the table of coal reserves under Item 2. Properties, and as described in the "Maryland Operations" discussion under Item 1. Business.

PART I

ITEM 1. BUSINESS

GENERAL

We are a diversified producer and marketer of coal to major United States utilities and industrial users. We began mining operations in 1971 and, since then, have grown through acquisitions and internal development to become the eighth largest coal producer in the eastern United States. At December 31, 2001, we had approximately 400.7 million tons of reserves in Illinois, Indiana, Kentucky, Maryland and West Virginia. In 2001, we produced 15.7 million tons of coal and sold 17.0 million tons of coal. The coal we produced in 2001 was 28.7% low-sulfur coal, 17.2% medium-sulfur coal and 54.1% high-sulfur coal. In 2001, approximately 91% of our medium- and high-sulfur coal was sold to utility plants with installed pollution control devices, also known as "scrubbers," to remove sulfur dioxide. We classify low-sulfur coal as coal with a sulfur content of less than 1%, medium-sulfur coal as coal with a sulfur content between 1% and 2% and high-sulfur coal as coal with a sulfur content of greater than 2%.

We currently operate seven mining complexes in Illinois, Indiana, Kentucky and Maryland. Six of our mining complexes are underground and one has multiple surface operations and a single underground mine. Our mining activities are organized into three operating regions: (a) the Illinois Basin operations, (b) the East Kentucky operations, and (c) the Maryland operations.

We and our subsidiary, Alliance Resource Operating Partners, L.P. (referred to as the intermediate partnership), were formed to acquire, own and operate substantially all of the coal production and marketing assets of Alliance Resource Holdings, Inc., a Delaware corporation formerly known as Alliance Coal Corporation. We completed our initial public offering on August 20, 1999, at which time Alliance Resource Holdings contributed substantially all of its operating assets and liabilities to the intermediate partnership.

Our managing general partner, Alliance Resource Management GP, LLC, and our special general partner, Alliance Resource GP, LLC (collectively referred to as our general partners) own an aggregate 2% general partner interests in us. Our limited partners, including the general partners as holders of common units and subordinated units, own an aggregate 98% of the limited partner interests in us.

The coal production and marketing assets of Alliance Resource Holdings acquired by us are referred to as our "predecessor." All 1999 operating data contained herein includes our results and our predecessor's results.

MINING OPERATIONS

We produce a diverse range of steam coals with varying sulfur and heat contents, which enables us to satisfy the broad range of specifications required by our customers. The following chart summarizes our production by region for the last five years.

OPERATING REGION AND MINES	2001	2000	1999	1998	1997
		(TONS IN MILLIONS)			
Illinois Basin Operations:					
Dotiki, Pattiki, Hopkins County, Gibson County	10.2	8.4	8.5	7.9	5.2
East Kentucky Operations:					
Pontiki, MC Mining	2.8	2.7	2.8	2.5	2.8
Maryland Operations:					
Mettiki	2.7	2.6	2.8	3.0	2.9
Total	15.7	13.7	14.1	13.4	10.9

ILLINOIS BASIN OPERATIONS

Our Illinois Basin mining operations are located in western Kentucky, southern Illinois and southern Indiana. We have approximately 975 employees in the Illinois Basin and currently operate four mining complexes.

Webster County Coal, LLC. Webster County Coal operates the Dotiki mine, which is an underground mining complex, located near Providence, Kentucky in Webster and Hopkins Counties, Kentucky. The mine was opened in 1966, and we purchased the mine in 1971. Our Dotiki operation utilizes continuous mining units employing room-and-pillar mining techniques. The preparation plant has a throughput capacity of 1,000 tons of raw coal an hour.

Production from the mine is shipped via the CSX railroad, the Paducah & Louisville railroad and by truck on U.S. and state highways. Our primary customers for coal produced at Dotiki are Seminole Electric Cooperative, Inc. (Seminole), Tennessee Valley Authority (TVA) and Western Kentucky Energy Corp. (WKE), which purchase our coal pursuant to long-term contracts for use in their scrubbed generating units. During August 2001, Dotiki began construction of a new mine shaft and ancillary facilities, which is expected to be operational in late 2002 and will provide a new access for miners and supplies.

White County Coal, LLC. White County Coal operates the Pattiki mine, which is an underground mining complex, located near New Harmony, Indiana in White County, Illinois. We began construction of the mine in 1980 and have operated it since its inception. Our Pattiki operation utilizes continuous mining units employing room-and-pillar mining techniques. We are in the process of extending our Pattiki mine into adjacent coal reserves, which will include two new shafts and ancillary facilities. This extension involves capital expenditures of approximately $30 million during the 2000-2003 period and allows the Pattiki mining complex to continue and expand its existing productive capacity for the next 15 years. The preparation plant has a throughput capacity of 1,000 tons of raw coal an hour.

Production from the mine is shipped via the CSX railroad. Our primary customers for coal produced at Pattiki are Seminole and Cincinnati Gas & Electric Company, which purchase our coal pursuant to long-term contracts for use in their scrubbed generating units.

Hopkins County Coal, LLC. Hopkins County Coal is a mining complex located near Madisonville, Kentucky in Hopkins County, Kentucky. We acquired Hopkins County Coal in January 1998, and consistent with our acquisition plans, purchased new mining equipment and completed extensive equipment rebuilds during 1998. The operation has three surface mines, one of which is currently idle, and one underground mine. The surface operations utilize dragline mining, and the underground operation utilizes a continuous mining unit employing room-and-pillar mining techniques. The preparation plant has a throughput capacity of 1,000 tons of raw coal an hour.

Production from the complex is shipped via the CSX and the Paducah & Louisville railroads and by truck on U.S. and state highways. Our primary customers for coal produced at Hopkins County Coal have been Louisville Gas & Electric Company (LG&E), TVA and WKE, which have purchased our coal pursuant to long-term contracts for use in their scrubbed generating units. As discussed under "Other Operations; Coal Synfuel" below, we now sell most of Hopkins County Coal's production to the synfuel facility owner, which in turn sells coal synfuel to LG&E, TVA and other potential customers. We have put in place "back-up" coal supply agreements with these customers, which automatically provide for sale of our coal to them in the event they do not receive coal synfuel.

Gibson County Coal, LLC. Gibson County Coal is an underground mining complex located near Princeton, Indiana in Gibson County, Indiana. In October 1999, we announced the award of engineering and construction contracts for the development of dual mine slopes and a mine shaft to support mining operations. Subsequent contracts were awarded by our special general partner for the construction of a coal preparation plant and handling facilities, providing us access to these facilities under a long-term operating lease agreement. The mine began production with a single mining unit in November 2000. The Gibson County mining complex utilizes multiple continuous mining units employing room-and-pillar mining techniques. The preparation plant has a throughput capacity of 700 tons of raw coal an hour.

Production from Gibson County Coal is a low-sulfur coal, shipped via truck approximately 10 miles on U.S. and state highways to our primary customer, PSI Energy Inc. (PSI), a subsidiary of Cinergy Corporation. In 1997, we acquired an additional 99.9 million tons of undeveloped recoverable reserves in Gibson County, which are not contiguous to the reserves currently being mined. We refer

to these reserves as the Gibson County "South" reserves.

EAST KENTUCKY OPERATIONS

Our East Kentucky mining operations are located in the Central Appalachia coal fields. Our East Kentucky mines produce low-sulfur coal. We have approximately 435 employees and operate two mining complexes in East Kentucky.

Pontiki Coal, LLC. Pontiki is an underground mining complex located near Inez, Kentucky in Martin County, Kentucky. We constructed the mine in 1977. Pontiki owns the mining complex and reserves and Excel Mining LLC, an affiliate of Pontiki, is responsible for conducting all mining operations. Substantially all of the coal produced at Pontiki meets or exceeds the compliance requirements of Phase II of the Clean Air Act amendments. Our Pontiki operation utilizes continuous mining units employing room-and-pillar mining techniques. The preparation plant has a throughput capacity of 800 tons of raw coal an hour.

Production from the mine is shipped via the Norfolk Southern railroad or by truck via U.S. and state highways to various docks on the Big Sandy River in Kentucky. Our primary customers for coal produced at Pontiki are James River Cogeneration Company, the successor to Cogentrix of Virginia, Inc., and AEI Coal Sales Company, Inc.

MC Mining, LLC. MC Mining is an underground mining complex located near Pikeville, Kentucky in Pike County, Kentucky. MC Mining was acquired in 1989. When we began operations in late 1996, MC Mining was operated by an unaffiliated contract mining company. During 2000, the contract mining agreement was terminated and MC Mining entered into an intercompany support services agreement with Excel Mining. Selected employees of the contractor and other qualified individuals were hired by Excel Mining, which is responsible for conducting all mining operations. The operation utilizes continuous mining units employing room-and-pillar mining techniques. The preparation plant has a throughput capacity of 800 tons of raw coal an hour.

Production from the mine is shipped via the CSX railroad or by truck via U.S. and state highways to various docks on the Big Sandy River. MC Mining sells its low-sulfur production primarily in the spot market.

MARYLAND OPERATIONS

Our Maryland mining operation is located in the Northern Appalachia coal fields. We have approximately 235 employees and operate one mining complex in Maryland.

Mettiki Coal, LLC. Mettiki is an underground longwall mining complex located near Oakland, Maryland in Garrett County, Maryland. We constructed Mettiki in 1977 and have operated it since its inception. The operation utilizes a longwall miner for the majority of the coal extraction as well as continuous mining units used to prepare the mine for future longwall mining. The preparation plant has a throughput capacity of 1,350 tons of raw coal an hour.

Our primary customer for coal produced at Mettiki is Virginia Electric and Power Company (VEPCO), which purchases the coal pursuant to a long-term contract for use in the generating units at its Mt. Storm, West Virginia power plant, located less than 20 miles away. Our coal is trucked to Mt. Storm over a private haul road, which links to a state highway. Mettiki is also served by the CSX railroad. We also process coal at Mettiki for Anker Energy Corporation and one

of its affiliates.

Mettiki Coal (WV), LLC. Mettiki (WV) has approximately 18.9 million tons of undeveloped recoverable reserves in Grant and Tucker Counties, West Virginia adjacent to Mettiki in Garrett County, Maryland. We currently conduct no mining operations at Mettiki (WV).

OTHER OPERATIONS

MT. VERNON TRANSFER TERMINAL, LLC

The Mt. Vernon terminal is a rail-to-barge loading terminal on the Ohio River in Mt. Vernon, Indiana. The terminal has a capacity of 5.5 million tons per year with existing ground storage. The terminal was used from 1983 through 1998 for shipments from Pattiki and Dotiki under our coal supply agreement with Seminole. Seminole now transports these shipments to its generating units directly by CSX railroad. We recently entered into coal supply agreements that are intended to ship approximately 1.4 million tons through the Mt. Vernon terminal in 2002.

COAL SYNFUEL

We recently entered into long-term agreements with Synfuel Solutions Operating LLC (SSO) to host and operate its coal synfuel facility at Hopkins County Coal, supply coal feedstock, assist with the coal synfuel marketing and provide other services through December 31, 2007. These agreements provide us with coal sales and service fees from SSO based on the synfuel facility throughput tonnage, which amounts are dependent on the ability of the facility's owners to use certain qualifying tax credits applicable to the facility. A portion of these services will be performed by a newly formed subsidiary, Alliance Service, Inc., which is subject to federal and state income tax. As discussed above in "Mining Operations; Illinois Basin; Hopkins County Coal", we now sell most of the coal produced at our Hopkins County Coal mining complex to SSO, while Alliance Coal Sales, an unincorporated sales business unit of Alliance Coal, assists SSO with the sale of its coal synfuel to our customers pursuant to a sales agency agreement. The term of each of these agreements is subject to early cancellation provisions customary for transactions of these types, including the unavailability of synfuel tax credits, the termination of associated coal synfuel sales contracts, and the occurrence of certain force majeure events. Therefore, the continuation of the operating revenues associated with the coal synfuel production facility cannot be assured. However, we have put in place "back up" coal supply agreements with each coal synfuel customer, which automatically provide for sale of our coal to them in the event they do not receive coal synfuel.

COAL BROKERAGE

We buy coal from outside producers throughout the eastern United States, which we then resell, both directly and indirectly, to utility and industrial customers. We purchased and sold approximately 535,000 tons

of outside coal in 2001. We have a policy of matching our outside coal purchases and sales to minimize market risks associated with buying and reselling coal.

ADDITIONAL SERVICES

We develop and market additional services in order to establish ourselves

as the supplier of choice for our customers. Examples of the kind of services we have offered to date include ash and scrubber sludge removal, coal yard maintenance, and arranging alternate transportation services.

COAL MARKETING and SALES

As is customary in the coal industry, we have entered into long-term contracts with many of our customers. These arrangements are mutually beneficial. Our utility customers secure a fuel supply for their power plants for years into the future. Our long-term contracts contribute to both our customers' and our stability and profitability by providing greater predictability of sales volumes and sales prices. In 2001, approximately 78% of our sales tonnage, accounting for 75% of our total revenue, was sold under long-term contracts (contracts having a term of greater than one year) with maturities ranging from 2001 to 2012. Our total nominal commitment under significant long-term contracts was approximately 84.6 million tons at December 31, 2001 and is expected to be delivered as follows: 15.4 million tons in 2002, 12.6 million tons in 2003, 11.9 million tons in 2004 and 11.6 million tons in 2005 and 2006, and 21.5 million tons thereafter during the remaining terms of the relevant coal supply agreements. The total commitment of coal under contract is an approximate number because, in some instances, our contracts contain provisions that could cause the nominal total commitment to increase or decrease by as much as 20%. The contractual time commitments for customers to nominate future purchase volumes under these contracts are sufficient to allow us to balance our sales commitments with production capacity. In addition, the nominal total commitment can otherwise change because of price reopener provisions contained in certain of these long-term contracts. We believe our long-term contract position compares favorably to those of our competitors.

The terms of long-term contracts are the results of both bidding procedures and extensive negotiations with the customer. As a result, the terms of these contracts vary significantly in many respects, including, among others, price adjustment features, price and contract reopener terms, permitted sources of supply, force majeure provisions, coal qualities, and quantities. Virtually all of our long-term contracts are subject to price adjustment provisions which permit an increase or decrease periodically in the contract price to reflect changes in specified price indices or items such as taxes, royalties or actual production costs. These provisions, however, may not assure that the contract price will reflect every change in production or other costs. Failure of the parties to agree on a price pursuant to an adjustment or a reopener provision can lead to early termination of a contract. Some of the long-term contracts also permit the contract to be reopened to renegotiate terms and conditions other than the pricing terms, and where a mutually acceptable agreement on terms and conditions cannot be concluded, either party may have the option to terminate the contract. The long-term contracts typically stipulate procedures for quality control, sampling and weighing. Most contain provisions requiring us to deliver coal within stated ranges for specific coal characteristics such as heat, sulfur, ash, moisture, grindability, volatility and other qualities. Failure to meet these specifications can result in economic penalties or termination of the contracts. While most of the contracts specify the approved seams and/or approved locations from which the coal is to be mined, some contracts allow the coal to be sourced from more than one mine or location. Although the volume to be delivered pursuant to a long-term contract is stipulated, the buyers often have the option to vary the volume within specified limits.

RELIANCE on MAJOR CUSTOMERS

Our three largest customers in 2001 were Seminole, TVA and VEPCO. Sales to these customers in the aggregate accounted for approximately 41% of our 2001 total revenues, and sales to each of these customers

accounted for more than 10% of our 2001 total revenues. Each of these customers has purchased coal regularly from us for more than 15 years. In addition, under the agreements we have entered into with SSO to supply coal feedstock and other services, we now sell most of the coal produced at our Hopkins County Coal facility to SSO. SSO, through Alliance Coal Sales, acting as its agent, in turn sells coal synfuel to our former customers at Hopkins County Coal, including TVA. As a result, in 2002 it is likely that our coal sales to SSO will account for more than 10% of our revenues, while our sales to TVA will no longer account for more than 10% of our revenues.

On February 28, 2002, a major customer of our Pontiki mine (not one of the three major customers discussed above) voluntarily filed for Chapter 11 bankruptcy protection. Accompanying the bankruptcy filing was a pre-packaged plan of reorganization unanimously approved by certain creditor classes. The customer has represented in its bankruptcy filing and public press releases that all existing trade claims will be paid in full and a vast majority of its contracts will be continued without any adverse impact. All of the accounts receivable under the long-term contract with this customer are current. Management does not anticipate that this event will have a material impact on our financial condition or results of operations.

COMPETITION

The United States coal industry is highly competitive with numerous producers in all coal producing regions. We compete with other large producers and hundreds of small producers in the United States. The largest coal company is estimated to have sold approximately 15% of the total 2001 tonnage sold in the United States market. We compete with other coal producers primarily on the basis of coal price at the mine, coal quality (including sulfur content), transportation cost from the mine to the customer, and the reliability of supply. Continued demand for our coal and the prices that we obtain are also affected by demand for electricity, environmental and government regulations, technological developments, and the availability and price of alternative fuel supplies, including nuclear, natural gas, oil, and hydroelectric power.

TRANSPORTATION

Our coal is transported to our customers by rail, truck and barge. Depending on the proximity of the customer to the mine and the transportation available for delivering coal to that customer, transportation costs can range from 10% to 80% of the delivered cost of a customer's coal. As a consequence, the availability and cost of transportation constitute important factors in the marketability of coal. We believe our mines are located in favorable geographic locations that minimize transportation costs for our customers.

Customers pay the transportation costs from the contractual F.O.B. point (free-on-board point), which is consistent with practice in the industry and is generally from the mine to the customer's plant. In 2001, the largest volume transporter of our coal production was the CSX railroad, which moved approximately 50% of our tonnage over its rail system. The practices of, and rates set by, the railroad serving a particular mine or customer might affect, either adversely or favorably, our marketing efforts with respect to coal produced from the relevant mine. At our Gibson and Mettiki mines, a contractor operates a truck delivery system that transports the coal from the mine to the primary customer's power plant.

REGULATION AND LAWS

The coal mining industry is subject to regulation by federal, state and local authorities on matters such as:

- employee health and safety;
- mine permits and other licensing requirements;
- air quality standards;
- water pollution;

- storage of petroleum products and substances which are regarded as hazardous under applicable laws or which, if spilled, could reach waterways or wetlands;
- storage and handling of explosives;
- plant and wildlife protection;
- reclamation and restoration of mining properties after mining is completed;
- the discharge of materials into the environment;
- management of solid wastes generated by mining operations;
- protection of wetlands;
- management of electrical equipment containing polychlorinated biphenyls (PCBs);
- surface subsidence from underground mining;
- the effects (if any) that mining has on groundwater quality and availability; and
- legislatively mandated benefits for current and retired coal miners.

In addition, the utility industry is subject to extensive regulation regarding the environmental impact of its power generation activities, which could affect demand for our coal. The possibility exists that new legislation or regulations, or new interpretations of existing laws or regulations, may be adopted that may have a significant impact on our mining operations or our customers' ability to use coal, or may require us or our customers to change our or their operations significantly or to incur substantial costs.

We are committed to conducting mining operations in compliance with all applicable federal, state and local laws and regulations. However, because of extensive and comprehensive regulatory requirements, violations during mining operations are not unusual in the industry and, notwithstanding our compliance efforts, we do not believe these violations can be eliminated completely. None of the violations to date or the monetary penalties assessed at our operations have been material.

While it is not possible to quantify the costs of compliance with all

applicable federal and state laws, those costs have been and are expected to continue to be significant. Capital expenditures for environmental matters have not been material in recent years. We have accrued for the present value estimated cost of reclamation and mine closing, including the cost of treating mine water discharge, when necessary. The accrual for reclamation and mine closing costs is based upon permit requirements and the costs and timing of reclamation and mine closing procedures. Although management believes it has made adequate provisions for all expected reclamation and other costs associated with mine closures, future operating results would be adversely affected if we later determine these accruals to be insufficient. Compliance with these laws has substantially increased the cost of coal mining for all domestic coal producers.

MINING PERMITS AND APPROVALS

Numerous governmental permits or approvals are required for mining operations. We may be required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed production of coal may have upon the environment. All requirements imposed by any of these authorities may be costly and time-consuming, and may delay commencement or continuation of mining operations. Future legislation and administrative regulations may emphasize more heavily the protection of the environment and, as a consequence, our activities may be more closely regulated. Legislation and regulations, as well as future interpretations of existing laws, may require substantial increases in equipment and operating costs, or delays, interruptions or termination of operations, the extent of any of which cannot be predicted.

Before commencing mining on a particular property, we must obtain mining permits and approvals by state regulatory authorities of a reclamation plan for restoring, upon the completion of mining, the mined property to its approximate prior condition, productive use or other permitted condition. Typically, we commence actions to obtain permits between 18 and 24 months before we plan to mine a new area. In our experience, permits generally are approved within 12 months after a completed application is submitted. We

have not experienced material or significant difficulties in obtaining mining permits in the areas where our reserves are currently located. However, we cannot assure you that we will not experience difficulty in obtaining mining permits in the future.

On January 29, 2002, the West Virginia Department of Environmental Protection (West Virginia DEP) denied a permit application for the mining of approximately 3.1 million tons of Mettiki (WV)'s non-reserve coal deposits. Mettiki planned to mine the tons covered by the denied permit from its existing underground infrastructure because this portion of Mettiki (WV)'s non-reserve coal deposits are contiguous to Mettiki's reserves located in Maryland. We have appealed the permit denial by the West Virginia DEP to the West Virginia Surface Mining Board and hearings have been scheduled during May 2002.

Under some circumstances, substantial fines and penalties, including revocation of mining permits, may be imposed under the laws described above. Monetary sanctions and, in severe circumstances, criminal sanctions may be imposed for failure to comply with these laws. Regulations also provide that a mining permit can be refused or revoked if the permit applicant or permittee owns or controls, directly or indirectly through other entities, mining operations which have outstanding environmental violations. Although we have been cited for violations in the ordinary course of our business, we have never

had a permit suspended or revoked because of any violation, and the penalties assessed for these violations have not been material.

MINE HEALTH AND SAFETY LAWS

Stringent safety and health standards have been imposed by federal legislation since 1969 when the Coal Mine Health and Safety Act of 1969 (CMHSA) was adopted. CMHSA resulted in increased operating costs and reduced productivity. The Federal Mine Safety and Health Act of 1977, which significantly expanded the enforcement of health and safety standards of CMHSA, imposes comprehensive safety and health standards on all mining operations. Regulations are comprehensive and affect numerous aspects of mining operations, including training of mine personnel, mining procedures, blasting, the equipment used in mining operations and other matters. The Mine Safety and Health Administration monitors compliance with these federal laws and regulations. In addition, as part of CMHSA and the Mine Safety and Health Act of 1977, the Black Lung Benefits Act requires payments of benefits by all businesses that conduct current mining operations to a coal miner with black lung disease and to some survivors of a miner who dies from this disease. Most of the states where we operate also have state programs for mine safety and health regulation and enforcement. In combination, federal and state safety and health regulation in the coal mining industry is perhaps the most comprehensive and rigorous system for protection of employee safety and health affecting any segment of any industry. Even the most minute aspects of mine operations, particularly underground mine operations, are subject to extensive regulation. This regulation has a significant effect on our operating costs. For example, new regulations governing exposures to diesel particulate matter in underground mines will likely increase our compliance costs in 2002. However, our competitors in all of the areas in which we operate are subject to the same laws and regulations.

BLACK LUNG BENEFITS ACT (BLBA)

The Federal BLBA levies a tax on production of $1.10 per ton for underground-mined coal and $0.55 per ton for surface-mined coal, but not to exceed 4.4% of the applicable sales price, in order to compensate miners who are totally disabled due to black lung disease and some survivors of miners who died from this disease, and who were last employed as miners prior to 1970 or subsequently where no responsible coal mine operator has been identified for claims. In addition, BLBA provides that some claims for which coal operators had previously been responsible will be obligations of the government trust funded by the tax. The Revenue Act of 1987 extended the termination date of this tax from January 1, 1996, to the earlier of January 1, 2014, or the date on which the government trust becomes solvent. For miners last employed as miners after 1969 and who are determined to have contracted black lung, we self-insure against potential cost using actuarially

determined estimates of the cost of present and future claims. We are also liable under state statutes for black lung claims.

The U.S. Department of Labor published revised regulations in December 2000, that became effective in January 2001, that will alter the claims process for federal black lung benefit recipients, which among other things:

- simplify administrative procedures for the adjudication of claims;

- propose preference for the miner's treating physician under certain

circumstances;

- allow previously denied claims to be refiled and litigated under a different standard;

- limit the amount of evidence all parties may submit for consideration;

- create a rebuttable presumption that medical treatment for any pulmonary condition is caused or aggravated by the miner's work; and

- expand the definition of pneumoconiosis and total disability.

Because the revised regulations are expected to result in an increase in the incidence and recovery of black lung claims, both the coal and insurance industries are currently challenging certain provisions of the revised regulations through litigation. A federal judge upheld these regulations in August 2001. An appeal was filed in August 2001. In addition, Congress and state legislatures regularly consider various items of black lung legislation, which, if enacted, could adversely affect our business financial condition and results of operations.

WORKERS' COMPENSATION

We are required to compensate employees for work-related injuries. Several states in which we operate consider changes in workers compensation laws from time to time.

COAL INDUSTRY RETIREE HEALTH BENEFITS ACT (CIRHBA)

The Federal CIRHBA was enacted to provide for the funding of health benefits for some United Mine Workers of America retirees. The act merged previously established union benefit plans into a single fund into which "signatory operators" and "related persons" are obligated to pay annual premiums for beneficiaries. The act also created a second benefit fund for miners who retired between July 21, 1992, and September 30, 1994, and whose former employers are no longer in business. Because of our union-free status, we are not required to make payments to retired miners under CIRHBA, with the exception of limited payments made on behalf of predecessors of MC Mining, LLC. However, in connection with the sale of the coal assets acquired by Alliance Resource Holdings in 1996, MAPCO Inc. agreed to retain, and be responsible for, all liabilities under CIRHBA.

SURFACE MINING CONTROL AND RECLAMATION ACT (SMCRA)

The Federal SMCRA establishes operational, reclamation and closure standards for all aspects of surface mining as well as many aspects of deep mining. The act requires that comprehensive environmental protection and reclamation standards be met during the course of and upon completion of mining activities. In conjunction with mining the property, we reclaim and restore the mined areas by grading, shaping and preparing the soil for seeding. Upon completion of the mining, reclamation generally is completed by seeding with grasses or planting trees for a variety of uses, as specified in the approved reclamation plan. We believe that we are in compliance in all material respects with applicable regulations relating to reclamation.

SMCRA and similar state statutes, require, among other things, that mined property be restored in accordance with specified standards and approved reclamation plans. The act requires us to restore the surface to approximate the original contours as contemporaneously as practicable with the completion of surface

mining operations. The mine operator must submit a bond or otherwise secure the performance of these reclamation obligations. The earliest a reclamation bond can be released is five years after reclamation has been achieved. Federal law and some states impose on mine operators the responsibility for replacing certain water supplies damaged by mining operations and repairing or compensating for damage occurring on the surface as a result of mine subsidence, a consequence of longwall mining and possibly other mining operations. In addition, the Abandoned Mine Lands Program, which is part of SMCRA, imposes a tax on all current mining operations, the proceeds of which are used to restore mines closed before 1977. The maximum tax is $0.35 per ton on surface-mined coal and $0.15 per ton on underground-mined coal. We have accrued for the estimated costs of reclamation and mine closing, including the cost of treating mine water discharge when necessary. In addition, states from time to time have increased and may continue to increase their fees and taxes to fund reclamation of orphaned mine sites and acid mine drainage control on a statewide basis.

Under SMCRA, responsibility for unabated violations, unpaid civil penalties and unpaid reclamation fees of independent contract mine operators and other third parties can be imputed to other companies which are deemed, according to the regulations, to have "owned" or "controlled" the third party violator. Sanctions against the "owner" or "controller" are quite severe and can include being blocked from receiving new permits and revocation of any permits that have been issued since the time of the violations or, in the case of civil penalties and reclamation fees, since the time their amounts became due. We are not aware of any currently pending or asserted claims against us relating to the "ownership" or "control" theories discussed above. However, we cannot assure you that such claims will not develop in the future.

CLEAN AIR ACT (CAA)

The Federal CAA and similar state laws, which regulate emissions into the air, affect coal mining and processing operations primarily through permitting and emissions control requirements. The CAA also indirectly affects coal mining operations by extensively regulating the air emissions of coal-fired electric power generating plants. For example, the CAA requires reduction of sulfur dioxide (SO2) emissions from electric power generation plants in two phases. Only some facilities were subject to the Phase I requirements. Beginning in year 2000, Phase II requires nearly all facilities to reduce emissions. The effected utilities are able to meet these requirements by:

- switching to lower sulfur fuels;
- installing pollution control devices such as scrubbers;
- reducing electricity generating levels; or
- purchasing or trading so-called pollution "credits."

Specific emissions sources receive these "credits" that utilities and industrial concerns can trade or sell to allow other units to emit higher levels of SO2. In addition, the CAA requires a study of utility power plant emissions of some toxic substances and their eventual regulation, if warranted. The effect of the CAA cannot be completely ascertained at this time, although the SO2 emissions reduction requirement is projected generally to increase the demand for lower sulfur coal and potentially decrease demand for higher sulfur coal.

The CAA also indirectly affects coal mining operations by requiring utilities that currently are major sources of nitrogen oxides (NOx) in moderate

or higher ozone nonattainment areas to install reasonably available control technology for NOx, which are precursors of ozone. In October 1998, the U.S. Environmental Protection Agency (EPA) issued a rule requiring 22 eastern states and the District of Columbia to make substantial reductions in NOx emissions by the year 2003, which was substantially upheld by the U.S. Court of Appeals for the D.C. Circuit on March 3, 2000. On March 5, 2001, the U.S. Supreme Court declined to review that decision, in response to a petition by seven states and the power and coal industries. This deadline was recently extended by EPA to 2004. EPA expects that affected states will achieve reductions by requiring power plants to make substantial reductions in their NOx emissions. This in turn will

require power plants to install reasonably available control technology and additional control measures. Installation of reasonably available control technology and additional measures required under EPA regulations will make it more costly to operate coal-fired 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. Any reduction in coal's share of the capacity for power generation could have a material adverse effect on our business, financial condition and results of operations. The effect these regulations, or other requirements that may be imposed in the future, could have on the coal industry in general and on our business in particular cannot be predicted with certainty. We cannot assure you that the implementation of the CAA, the new National Ambient Air Quality Standards (NAAQS) discussed below, or any other current or future regulatory provision, will not materially adversely affect us.

In addition, EPA has already issued and is considering further regulations relating to fugitive dust and emissions of other coal-related pollutants such as mercury, nickel, dioxin and fine particulates. For example, in July 1997 EPA adopted new, more stringent NAAQS for particulate matter, which may require some states to change existing implementation plans. These NAAQS are expected to be implemented by 2003. These NAAQS were effectively affirmed by the U.S. Supreme Court on February 27, 2001, subject to the resolution of certain issues pending on remand. That decision upheld the constitutionality of EPA's NAAQS statutory authority, finding that EPA acted properly in not considering costs in setting the NAAQS, and remanded the case to the U.S. Court of Appeals for the D.C. Circuit to dispose of any remaining challenges to the rules. On March 26, 2002, the U.S. Court of Appeals for the D.C. Circuit upheld EPA's NAAQS. Because coal mining operations and utilities emit particulate matter, our mining operations and utility customers are likely to be directly affected when the revisions to the NAAQS are implemented by the states. Both Congress and EPA are considering additional controls on other air pollutants emitted by electric utilities. Any such controls, if adopted, could adversely affect the market for coal.

EPA has filed suit against a number of our customers over implementation of new source performance standards and preconstruction review requirements for new sources and major modifications under the prevention of significant deterioration and nonattainment regulations. This issue surrounds the issue of what constitutes regular maintenance versus new construction. Some of our customers have agreed to or proposed settlements with EPA while others are preparing for litigation. These and other regulatory developments may restrict the size of our market, and the type of coal in demand. This in turn could adversely affect our ability to develop new mines, or could require us or our customers to modify existing operations.

FRAMEWORK CONVENTION ON GLOBAL CLIMATE CHANGE (KYOTO PROTOCOL)

The United States and more than 160 other nations are signatories to the Kyoto Protocol which is intended to limit or capture emissions of greenhouse gases, such as carbon dioxide. The Kyoto Protocol established a binding set of emissions targets for developed nations. The specific limits vary from country to country. Under the terms of the Kyoto Protocol, the United States would be required to reduce emissions to 93% of 1990 levels over a five-year budget period from 2008 through 2012. The Clinton Administration signed the Kyoto Protocol in November 1998. Although the U.S. Senate has not ratified the Kyoto Protocol and no comprehensive regulations focusing on greenhouse gas emissions have been enacted, efforts to control greenhouse gas emissions could result in reduced use of coal if electric power generators switch to lower carbon sources of fuel.

In March 2001, President Bush expressed his opposition to the Kyoto Protocol and stated that he did not believe that the government should impose mandatory carbon dioxide emission reductions on power plants. In February 2002, President Bush proposed voluntary actions to reduce greenhouse gas intensity of the United States. Greenhouse gas intensity measures the ratio of greenhouse gas emissions, such as carbon dioxide, to economic output. The President's climate change initiative calls for a reduction in greenhouse gas intensity

over the next ten years, which is approximately equivalent to the reduction that has occurred over each of the past two decades. These restrictions, if established through regulation or legislation, could have a material adverse effect on our business, financial condition and results of operations.

CLEAN WATER ACT (CWA)

The Federal CWA affects coal mining operations by imposing restrictions on effluent discharge into waters. Regular monitoring, as well as compliance with reporting requirements and performance standards, are preconditions for the issuance and renewal of permits governing the discharge of pollutants into water. We are also subject to CWA Section 404, which imposes permitting and mitigation requirements associated with the dredging and filling of wetlands. The CWA and equivalent state legislation, where such equivalent state legislation exists, affect coal mining operations that impact wetlands. We believe we have obtained all necessary wetlands permits required under CWA Section 404. However, mitigation requirements under those existing, and possible future, wetlands permits may vary considerably. In January 2001, the U.S Supreme Court issued a decision narrowing the CWA jurisdiction over isolated wetlands not connected to navigable waters. It is not yet known how this will affect wetland mitigation and protection programs under federal and state laws. At this time we do not anticipate any increase in such requirements or in post-mining reclamation accrual requirements. For that reason, the setting of post-mine reclamation accruals for such mitigation projects is difficult to ascertain with certainty. We believe that we have obtained all permits required under the CWA as traditionally interpreted by the responsible agencies. Although more stringent permitting requirements may be imposed in the future, we are not able to accurately predict the impact, if any, of any such permitting requirements.

However, each individual state is required to submit to EPA their biennial CWA Section 303(d) lists identifying all waterbodies not meeting state specified water quality standards. For each listed waterbody, the state is required to begin developing a Total Maximum Daily Load (TMDL) to:

- determine the maximum pollutant loading the waterbody can assimilate without violating water quality standards,

- identify all current pollutant sources and loadings to that waterbody,

- calculate the pollutant loading reduction necessary to achieve water quality standards, and

- establish a means of allocating that burden among and between the point and non-point sources contributing pollutants to the waterbody.

We are currently participating in stakeholders meetings and in negotiations with states and EPA to establish reasonable TMDLs that will accommodate expansion. These and other regulatory developments may restrict our ability to develop new mines, or could require us or our customers to modify existing operations, the extent of which we cannot accurately or reasonably predict.

SAFE DRINKING WATER ACT (SDWA)

The Federal SDWA and its state equivalents affect coal mining operations by imposing requirements on the underground injection of fine coal slurries, fly ash, and flue gas scrubber sludge, and by requiring a permit to conduct such underground injection activities. The inability to obtain these permits could have a material impact on our ability to inject materials such as fine coal refuse, fly ash, or flue gas scrubber sludge into the inactive areas of some of our old underground mine workings.

In addition to establishing the underground injection control program, the Federal SDWA also imposes regulatory requirements on owners and operators of "public water systems." This regulatory program could impact our reclamation operations where subsidence, or other mining-related problems, require the provision of drinking water to affected adjacent homeowners. However, the Federal SDWA defines a "public water system" for purposes of regulatory jurisdiction as a system for the provision to the public of water for human

consumption through pipes or other constructed conveyances, if the system has at least fifteen service connections or regularly serves at least twenty-five individuals. It is unlikely that any of our reclamation activities would require the provision of such a "public water system." While we have drinking water supply sources for our employees and contractors that are subject to SDWA regulation, the SDWA is unlikely to have a material impact on our operations.

COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION AND LIABILITY ACT (CERCLA)

The Federal CERCLA and similar state laws affect coal mining operations by, among other things, imposing cleanup requirements for threatened or actual releases of hazardous substances that may endanger public health or welfare or the environment. Under CERCLA, and similar state laws, joint and several liability may be imposed on waste generators, site owners and operators and others regardless of fault or the legality of the original disposal activity. Some products used by coal companies in operations, such as chemicals, generate waste containing hazardous substances, which are governed by the statute. Thus, coal mines that we currently own or have previously owned or operated, and sites to which we sent waste materials, may be subject to liability under CERCLA and similar state laws. We have been, on rare occasions, the subject of administrative proceedings, litigation and investigations relating to CERCLA

matters, none of which has had a material adverse effect on our financial condition or results of operations. We cannot assure you that we will not become involved in future proceedings, litigation or investigations, or that liabilities arising out of any such proceedings will not be material.

TOXIC SUBSTANCES CONTROL ACT (TSCA)

The Federal TSCA regulates, among other things, electrical equipment containing PCBs in excess of 50 parts-per-million. Specifically, TSCA's PCB rules require that all PCB-containing equipment be properly labeled, stored, and disposed of, and require the on-site maintenance of annual records regarding the presence and use of equipment containing PCBs in excess of 50 parts-per-million. Because the regulated PCB-containing electrical equipment in use in our operations is owned by the utilities that serve the operations where they are located, and because the use of PCB-containing fluids in such equipment is in the process of being phased out, we do not believe TSCA will have a material impact on our operations.

RESOURCE CONSERVATION AND RECOVERY ACT (RCRA)

The Federal RCRA affects coal mining operations by imposing requirements for the generation, transportation, treatment, storage, disposal and cleanup of hazardous wastes. Many mining wastes are excluded from the regulatory definition of hazardous wastes, and coal mining operations covered by SMCRA permits are exempted from regulation under RCRA by statute. RCRA also allows EPA to require corrective action at sites where there is a release of hazardous substances. In addition, each state has its own laws regarding the proper management and disposal of waste material. While these laws impose ongoing compliance obligations, we do not believe that these costs will have a material impact on our operations.

COAL COMBUSTION BY-PRODUCTS

In 2000, EPA declined to impose hazardous wastes regulatory controls on the disposal of some coal combustion by-products, including the practice of using coal combustion by-products as minefill. However, EPA is currently evaluating the possibility of placing additional solid waste burdens on the disposal of these types of materials, but it may be several years before these standards will be developed.

While we cannot predict the ultimate outcome of EPA's assessment, we believe the beneficial uses of coal combustion by-products (like the practice of placing this by-product in abandoned mine areas) that we employ do not constitute poor environmental practices because among other things, our CWA discharge permits for treated acid mine drainage contain parameters for pollutants of concern,

such as metals, and those permits require monitoring and reporting of effluent quality data. Small quantities of regulated hazardous wastes are generated at some of our facilities. However, we do not believe that the cost of complying with applicable regulations for those wastes will have a material impact on our operations.

OTHER ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

In addition to the laws and regulations described above, we are subject to regulations regarding underground and above ground storage tanks where we may

store petroleum or other substances. Some monitoring equipment that we use is subject to licensing under the Federal Atomic Energy Act. Water supply wells located on our property are subject to federal, state and local regulation. The costs of compliance with these requirements should not have a material adverse effect on our business, financial condition or results of operations.

EMPLOYEES

We have approximately 1,745 employees, including approximately 100 corporate employees and approximately 1,645 employees involved in active mining operations. Our work-force is entirely union-free. Relations with our employees are generally good.

ITEM 2. PROPERTIES

COAL RESERVES

We must obtain permits from applicable state regulatory authorities before beginning to mine particular reserves. Applications for permits require extensive engineering and data analysis and presentation, and must address a variety of environmental, health, and safety matters associated with a proposed mining operation. These matters include the manner and sequencing of coal extraction, the storage, use and disposal of waste and other substances and other impacts on the environment, the construction of overburden fills and water containment areas, and reclamation of the area after coal extraction. We are required to post bonds to secure performance under our permits. As is typical in the coal industry, we strive to obtain mining permits within a time frame that allows us to mine reserves as planned on an uninterrupted basis. We begin preparing applications for permits for areas that we intend to mine sufficiently in advance of our planned mining activities to allow adequate time to complete the permitting process. Regulatory authorities have considerable discretion in the timing of permit issuance, and the public has rights to comment on and otherwise engage in the permitting process, including intervention in the courts. For the reserves set forth in the table below, we are not currently aware of matters which would significantly hinder our ability to obtain future mining permits on a timely basis.

Our reported coal reserves are those that we believe can be economically and legally extracted or produced at the time of the filing of this Annual Report on Form 10-K. In determining whether our reserves meet this economical and legal standard, we take into account, among other things, our potential ability or inability to obtain a mining permit, the possible necessity of revising a mining plan, changes in estimated future costs, changes in future cash flows caused by changes in mining permits, variations in quantity and quality of coal, and varying levels of demand and their effects on selling prices.

As of December 31, 2001, we had approximately 400.7 million tons of coal reserves. All of the estimates of reserves which are presented in this Annual Report on Form 10-K are of proven and probable reserves.

The following table sets forth reserve information, as of December 31, 2001, about each of our mining complexes.

Heat Proven and Probable Reserves

Operations	Mine Type	Content (Btus per pound)	Pounds SO2 per MMbtu	Rese